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CONTENTS

Transnational Organizations in World Politics — *Samuel P. Huntington* 333

Foreign Expansion as an "Institutional Necessity" for U.S. Corporate Capitalism: The Search for a Radical Model — *Theodore H. Moran* 369

Economic Coercion as an Instrument of Foreign Policy: U.S. Economic Measures Against Cuba and the Dominican Republic — *Anna P. Schreiber* 387

The Hungarian Economic Reform — *David Granick* 414

REVIEW ARTICLES

International Law and Political Behavior: Toward a Conceptual Liaison — *Tom J. Farer* 430

The Working Class in the Future of the Third World — *Richard Sandbrook* 448

The Contributors ii

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TRANSNATIONAL ORGANIZATIONS IN WORLD POLITICS

By SAMUEL P. HUNTINGTON

I. The Transnational Organizational Revolution

Anaconda	Strategic Air Command
Intelsat	Unilever
Chase Manhattan	Ford Foundation
AID	Catholic Church
J. Walter Thompson	CIA
Air France	World Bank

THESE twelve organizations appear to have little in common. They are public and private, national and international, profit-making and charitable, religious and secular, civil and military, and, depending on one's perspective, benign and nefarious. Yet they do share three characteristics. First, each is a relatively large, hierarchically organized, centrally directed bureaucracy. Second, each performs a set of relatively limited, specialized, and, in some sense, technical functions: gathering intelligence, investing money, transmitting messages, promoting sales, producing copper, delivering bombs, saving souls. Third, each organization performs its functions across one or more international boundaries and, insofar as is possible, in relative disregard of those boundaries. They are, in short, *transnational organizations*, and the activities in which they engage are *transnational operations*. Such organizations have existed before in history. Armies and navies, churches and joint stock companies, as well as other types of organizations have been involved in transnational operations in the past. During the twenty-five years after World War II, however, transnational organizations: (a) proliferated in number far beyond anything remotely existing in the past; (b) individually grew in size far beyond anything existing in the past; (c) performed functions which they never performed in the past; and (d) operated on a truly global scale such as was never possible in the past. The increase in the number, size, scope, and variety of transnational organizations after World War II makes it possible, useful, and sensible to speak of a *transnational organizational revolution* in world politics. The purpose of this essay is to analyze, in a preliminary way, the sources, nature,

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and dynamics of this revolution, and to speculate on its implications for politics at the national and international levels.

"Transnationalism" is a term which suffers from being "in" in social science. Many people now use it to mean many different things. It has achieved popularity at the price of precision. Consequently, it is important to emphasize that in this essay the expression transnationalism is used only to refer to the kind of organizations and operations described in the preceding paragraph. This is, relatively speaking, a restricted use of the term. It differs from and is more limited than the broad sweep which Keohane and Nye give to the term in their path-breaking study.[1] For them, transnationalism encompasses all interactions across state boundaries in which at least one of the participants is not the agent of a government or an intergovernmental organization. Their emphasis is thus not on the scope of the operation, but on the public or private character of the participants in the operation. They direct their fire at what they describe as the "state-centric" view of world politics. In addition, transnational relations for them include all interactions, not just organizational ones; international trade and international travel, for instance, are included under their heading of "transnational processes." Their concern is principally with the activities in categories B, D, and F in Table 1; our concern here is with those in categories A and B.

TABLE 1. DEFINING TRANSNATIONALISM

Type of Participant	*Types of Activity*		
	BUREAUCRACY	ASSOCIATION	TRANSACTION
GOVERNMENTAL	(A) AID	(C) UN General Assembly	(E) USA-USSR SALT Agreement
NON-GOVERNMENTAL	(B) Unilever	(D) Pugwash Conference	(F) Boeing-Air France Sales Agreement

There is no point in debating definitions. But there is a need to insure that definitions clarify rather than obscure distinctions. By stressing the private-public character of the participants in an activity,

[1] Robert O. Keohane and Joseph S. Nye, Jr., eds., *Transnational Relations in World Politics* (Cambridge, Mass. 1972), *passim*, but esp. ix-xxii, 379-86. The essays in this volume have provided a major intellectual stimulus and an indispensable source of example for my own thinking about transnational organizations. I am also indebted to Professor Nye and to Professor Raymond Vernon for helpful comments on this manuscript.

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Nye and Keohane direct attention to the tremendous increase in the number and significance of private international interactions in recent decades and the much larger and diverse number of private individuals and groups engaging in such interactions. They include but do not focus on the dramatic rise of relatively centralized, functionally specific, bureaucratic organizations which carry out their operations across state boundaries. This latter development is clearly related to "Nye-Keohane transnationalism" but is also clearly different from it, since it can involve public as well as private organizations.

General Motors and a Pugwash Conference are both non-governmental (and hence "transnational" in the Nye-Keohane sense), and yet they do not have any more in common than do the U.S. Air Force and the SALT Conference, both of which are governmental bodies. The similarities between SALT and Pugwash are, however, very great. So also are those between General Motors and the USAF, both transnational organizations operating on a global scale. In 1969, for instance, the USAF budget was approximately $27 billion; General Motors sales were a little over $24 billion. The Air Force had 54 major installations in 20 countries (apart from Vietnam) outside the United States; General Motors had 53 plants or facilities in 25 countries outside the United States. There were 862,000 men in the Air Force, one-third of them deployed overseas. There were 794,000 General Motors employees, slightly less than one-fifth of them abroad. Some foreign installations of both the military service and the private corporation were directly involved in the area where they were located, contributing planes to local defense or producing cars for local consumption. In other cases, the activities and products of the installation had relatively little connection with or impact on the area in which the latter was located; they were oriented to the defense of distant regions or to sales in a distant market. For both private corporation and military service, each installation, wherever located, was expected to fit into and to respond to the global needs of the overall organization as determined by the central leadership of that organization. In both cases, the establishment of an installation abroad was dependent on the approval of a national host government which specified the terms and conditions of access to the national territory. The growth and multiplication of globally oriented bureaucratic organizations like GM and the USAF—public or private in character, nationally or internationally controlled—adds a critical new dimension to world politics.

The terms "international," "multinational," and "transnational" have been variously used to refer to the control of an organization, the

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composition of its staff, and the scope of its operations. Terminological confusion is further compounded because one word, "national," serves as the opposite of each of these three terms. To minimize ambiguity, at least on these pages, and to maintain some critical distinctions, each of these terms will in this essay be used to refer to only one of these organizational dimensions. An organization is "transnational" rather than "national" if it carries on significant centrally-directed operations in the territory of two or more nation-states. Similarly, an organization will be called "international" rather than "national" only if the control of the organization is explicitly shared among representatives of two or more nationalities. And an organization is "multinational" rather than "national" only if people from two or more nationalities participate significantly in its operations.

These distinctions are important, because almost any combination of internationalism, multinationalism, and transnationalism or their national opposites could exist in practice. The World Bank, for example, is formally international in control, highly multinational in personnel, and clearly transnational in its operations. The so-called "multinational" corporations, on the other hand, are often very transnational in their operations, reasonably multinational in personnel, but, with a few exceptions (Unilever, Royal Dutch Shell), almost wholly national in control.

For reasons which will be spelled out below, transnational operations and international control occur together only to a limited degree. Air Afrique, for instance, is an international airline in the sense that it is owned by twelve African governments plus some private French interests. It also engages in transnational air operations. Its transnational operations are, however, minuscule compared to those of Pan American, which is wholly owned by private American interests. Some international organizations may not engage in any transnational operations at all. The European Organization for Nuclear Research (CERN), for instance, is international in that it is sponsored by a dozen governments, and multinational because it employs people of several different nationalities. It was not, however, transnational so long as its operations all took place in a single laboratory in one locality and did not significantly cut across state boundaries.[2] Similarly, a Pugwash Conference, like the SALT talks, is international in control, multinational in personnel, but not transnational in its operations. A Pugwash Conference derives its point from the fact that Soviet and

[2] See Diana Crane, "Transnational Networks in Basic Science," *ibid.*, 245-46; Robert L. Thornton, "Governments and Airlines," *ibid.*, 193, 196.

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American private citizens are sitting down together to talk about common problems even as Soviet and American governmental representatives do. The conference is successful to the extent that there is a meeting of the minds between the members of the two national groups. Such a conference cannot be indifferent to the fact of nationality. It is, instead, rooted in that fact.

Contrast this essentially international and multinational (albeit private) phenomenon with the operations of an organization like Royal Dutch Shell, which is engaged in the pursuit of particular objectives more or less on a global basis across national boundaries. It is, in theory, impossible for a Pugwash Conference to meet if only Americans are present. It is, in theory, possible for Royal Dutch Shell to operate with a staff which is 100 per cent British, 100 per cent Dutch, 50 per cent each, or a motley mixture of diverse nationalities. As we shall see, the nationality mix of the members of a transnational operation may vary significantly. What makes Royal Dutch Shell a transnational phenomenon is the nature and scope of the operations it performs, not the nature of the people who perform those operations or the nature of the people who ultimately control those operations.

II. The Significance of Transnationalism

Nationalism, internationalism, and transnationalism have all been major factors on the contemporary world scene. At the end of World War II, observers of world politics expected nationalism to be a major force, and their expectations were not disappointed. The decline of Europe encouraged the blossoming forth of nationalist movements in Asia and Africa, and by the early 1960's colonialism in the classic familiar forms was virtually finished and scores of new nation-states had been formally recognized. The end of colonialism, however, did not mean the end of nationalism, in the sense of the behavioral and attitudinal manifestations by a people of their presumed ethnic or racial identity, nor the end of the political disruption of the newly independent nation-states. Colonialism led peoples of various ethnic or racial identities to suppress their antagonisms in order to win independence. The achievement of independence raised the question of *whose* independence had been achieved, and led to a re-awakening and, in some cases, a totally new awakening of communal antagonisms. Nationalism increasingly has meant "subnationalism," and has thus become identified with political fragmentation. Nationalism has remained a force in world politics, but a force which promises almost as much disruption in a

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world of independent states as it did in a world of colonial empires.

At the close of World War II, internationalism was also expected to be a wave of the future, and the United Nations was created to embody that hope and to make it reality. While nationalism has remained strong but its impact has changed, internationalism, in contrast, has failed to gain the role and significance which it was expected to achieve. The great hopes for international organizations—that is, organizations whose activities involve the active cooperation of distinct national (private or public) delegations—have not been realized. In one form or another, internationalism involves agreement among nation-states. Interests have to be shared or to be traded for an international organization to work. This requirement puts an inherent limit on internationalism. The United Nations and other international organizations have remained relatively weak because they are inherently the arenas for national actors; the extent to which they can become independent actors themselves is dependent on agreement among national actors.

An international organization requires the identification and creation of a common interest among national groups. This common interest may be easy to identify, such as the exchange of mail. Or it may be the product of extensive and time-consuming negotiation among national units. A transnational organization, on the other hand, has its own interest which inheres in the organization and its functions, which may or may not be closely related to the interests of national groups. Nations participate in international organizations; transnational organizations operate within nations. International organizations are designed to facilitate the achievement of a common interest among many national units. Transnational organizations are designed to facilitate the pursuit of a single interest within many national units. The international organization requires *accord* among nations; the transnational organization requires *access* to nations. These two needs, accord and access, neatly summarize the differences between the two phenomena. The restraints on an international organization are largely internal, stemming from the need to produce consensus among its members. The restraints on a transnational organization are largely external, stemming from its need to gain operating authority in different sovereign states. International organizations embody the principle of nationality; transnational organizations try to ignore it. In this sense the emergence of transnational organizations on the world scene involves a pattern of cross-cutting cleavages and associations overlaying those associated with the nation-state.

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The emergence of transnational organizations on such a large scale was, in large part, unanticipated. Internationalism was supposed to furnish the threads tying the world together. In actuality, however, every international organization at some point finds itself limited by the very principle which gives it being. Much of the disappointment with the UN and its various agencies stems precisely from the failure to recognize this fact. While national representatives and delegations engage in endless debate at UN conferences and councils, however, the agents of the transnational organizations are busily deployed across the continents spinning the webs that link the world together. The contrast between the two forms of organization can be seen in the difference between the great bulk of UN bodies which are basically international in character and thus dependent for action on agreement among national delegations, and one organization that is formally international in control and related to the UN but in practice quite autonomous, which operates successfully in a transnational manner. Perhaps significantly, that organization, the World Bank, is headquartered in Washington, not in New York.

A similar contrast exists between private transnational organizations and international non-governmental organizations (or INGO's). Like transnational organizations, INGO's multiplied rapidly in numbers and functions in the decades after World War II. Of the INGO's in existence in 1966, 50 per cent were founded after 1950 and 25 per cent were founded in 1960 or later. During these same years, however, the average size of the INGO's did not increase and, if anything, decreased. In 1964 the mean INGO budget was $629,000 and the mean INGO staff encompassed nine people.[8] INGO's simply did not have the resources, scope, or influence of nationally controlled, transnational, non-governmental organizations such as the Ford Foundation, IBM, or Exxon.

Transnational organizations thus may, in theory, be nationally or internationally, privately or governmentally controlled. The need to reach agreement among national units, however, restricts the purposes and activities of international bodies. Free of this internal constraint, nationally controlled organizations are much better able to formulate purposes, to mobilize resources, and to pursue their objectives across international boundaries. They may face greater political obstacles than international organizations in gaining access to national territories, but this disadvantage is more than compensated for by their relative

[8] Kjell Skjelsbaek, "The Growth of International Non-governmental Organization in the Twentieth Century," *ibid.*, 77.

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freedom from internal political constraints. International organizations, even when their functions are relatively specialized and the participating governments have much in common, still confront great difficulties in developing their operations. The rather sparse activities of the European-controlled international organizations, for instance, contrast markedly with those of U.S.-controlled transnational corporations operating in Europe.[4]

A distinctive characteristic of the transnational organization is its broader-than-national perspective with respect to the pursuit of highly specialized objectives through a central optimizing strategy across national boundaries. The "essence" of a transnational corporation, as Behrman has argued, "is that it is attempting to treat the various national markets as though they were one—to the extent permitted by governments."[5] In similar fashion, a transnational military organization treats the problems of defense of different national territories as if they were part of a single whole. For its specialized purpose, its arena assumes continental or global proportions and it thinks in continental or global terms. One of the early advantages of the American transnational corporation in Europe, for instance, as de Riencourt has argued, is that "unlike most of its European competitors, it thinks 'European,' not local or national; it is mentally geared to tap the whole European market, not merely that of France, Britain, Germany, or Italy. Thinking in terms of a single continental market, with a sales network covering the whole continent and straddling dozens of nation-states, with a uniform accounting system, the American subsidiary is in truth more typically 'European' than any European firm rooted in one single country."[6]

The transnational process developing today on a global scale is not unlike that which occurred within the United States during the nineteenth century. The struggle over the Constitution and much of the political controversy of the first part of the nineteenth century were essentially interstate in character. These issues were basically resolved by the Civil War. The actual integration of the United States as a national community, however, was accomplished not through agreements among the states but rather by the development of business corporations, social organizations, and eventually national government

[4] See, for instance, Crane (fn. 2), 245-46; Raymond Vernon, *Sovereignty at Bay* (New York 1971), 95-96.

[5] Jack N. Behrman, *Some Patterns in the Rise of the Multinational Enterprise* (Chapel Hill, N.C.: University of North Carolina, Graduate School of Business Administration, Research Paper No. 18, 1969), 61.

[6] Amaury de Riencourt, *The American Empire* (New York 1970), 284.

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bureaucracies which operated indiscriminately within states and across state boundaries. The emergence of these "trans-state organizations" was immensely stimulated by developments in transportation and communications, particularly the railroad, telegraph, rotary press, and telephone. It became dramatically evident when corporations legally domiciled in New Jersey or Delaware pursued their objectives of production and profit on a national basis, often with seeming disregard for the interests of individual states and localities.[7] The political controversies so generated plainly parallel those which currently concern the relations between so-called "multinational" or transnational corporations and national governments. Today's issues, arguments, and slogans neatly replicate those of a century ago between "the trusts" and the state governments. The feelings of powerlessness which the state legislatures in Illinois and Minnesota felt in their dealings with the New York Central and Great Northern railroads are duplicated today in the unease which national government leaders in Latin America, Asia, and even Europe feel in their dealings with IBM, Ford, or Unilever. Just as the railroad magnates then could make or break a community by deciding where to locate their terminals, so the transnational corporations of today can significantly influence the future of localities or regions in a number of countries by a decision as to where to place a new plant. The interaction between local interests and national organizations in the 1870's and 1880's gave rise to the Grangers and the Populists, who directed their fire at the monopolies, railroad titans, and eastern bankers who were exploiting them, even as Third-World nationalists and populists level comparable charges at General Motors and Chase Manhattan. In both cases local groups attempted to use the

[7] Just as states like New Jersey and Delaware provided tax and other advantages to companies which located their headquarters within the state, some European countries offer comparable concessions. American corporations thus set up Tax-Haven Companies in countries where "after negotiations with the government, taxes are either greatly reduced for the company or completely eliminated." In the words of the Rey Commission report for the European Economic Community:

> "The THC is a company that is not, as a rule, intended to fulfil a useful economic or financial function, but simply to allow its parent company to reduce to a minimum its overall tax burden.
>
> "The idea is to establish the company's official headquarters in a place where foreign income is partially or completely tax-free and to increase artificially the charges against production or distribution subsidiaries, so as to enable the THC to increase its revenue from various services, such as licencing, consultant work, and interest on loans, which it provides to the subsidiaries.
>
> "These THC, set up most frequently in the small neutral countries that specialize in them, enable American firms to make conscious use of loopholes or contradictions in the tax legislation of the various European countries."
>
> Quoted in *Le Monde* (Weekly Selection), July 1, 1970, p. 5.

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local government to "nationalize" or assert control over the transcending organization.

III. The American Sources of Transnationalism

The principal sources of the transnational organizational revolution are to be found in American society and in the global expansion of the United States during the two decades after World War II. This does not mean that transnational organizations and operations are only created by Americans. It does mean that the proliferation of transnational operations in recent years was initially and predominantly an American phenomenon. Transnational organizations in large part developed out of American national organizations (governmental or non-governmental) or out of international organizations in which Americans played the leading roles. Transnationalism is one of the more important legacies for world politics of two decades of American expansion into world politics.

Two preconditions, technological and political, exist for the development of transnationalism. For an organization to operate on a global or semi-global basis, it must have means of communication and transportation. Otherwise it will be only a crossnational organization, a federation of local satrapies each of which is more responsive to its local leadership than to centralized direction. There has to be the technological and organizational capability to operate across vast distances and in differing cultures. The transnational corporation rests on the fact that "technology and corporate organization in all of the advanced countries have now reached levels of capability that permit focus on markets and production across, and indeed without reference to, national boundaries."[8] Jet aircraft and communications satellites are to the transnational organizations of today what the iron horse and telephone were to the "trans-state" organizations of the United States in the 1880's. These technological capabilities to make "illusions of distance," in Albert Wohlstetter's phrase, were in large part developed within the United States and have been pre-eminently employed by the United States.

An organization can normally (there are notable exceptions) employ its technological capability to operate in a society only if it has the permission of the government of that society. Political access, consequently, has to go hand in hand with technical capability to make

[8] Sidney E. Rolfe, "The International Corporation in Perspective," in Rolfe and Walter E. Damm, eds., *The Multinational Corporation in the World Economy* (New York 1970), 12.

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transnationalism a reality. Throughout the two decades after World War II, the power of the United States Government in world politics, and its interests in developing a system of alliances with other governments against the Soviet Union, China, and communism, produced the underlying political condition which made the rise of transnationalism possible. Western Europe, Latin America, East Asia, and much of South Asia, the Middle East, and Africa fell within what was euphemistically referred to as "the Free World," and what was in fact a security zone. The governments of countries within this zone found it in their interest: (a) to accept an explicit or implicit guarantee by Washington of the independence of their country and, in some cases, of the authority of the government; and (b) to permit access to their territory by a variety of U.S. governmental and non-governmental organizations pursuing goals which those organizations considered important. Communist governments, of course, by and large did not permit such access, although at times they were incapable of stopping it (for instance, U-2 flights over the Soviet Union in the 1950's). Other governments (Burma, the U.A.R., Syria) terminated such access or permitted it only on a very restricted basis. The great bulk of the countries of Europe and the Third World, however, found the advantages of transnational access to outweigh the costs of attempting to stop it.

Many books have been written describing—and deploring—"the American Empire" which emerged after World War II. These volumes are filled with statistics on U.S. military spending, troop deployments, overseas bases, foreign investments, exports and imports, economic and military assistance. The one statistic that is always missing, however, is that which was always central to descriptions of the British, French, Spanish, or Roman empires: square miles. In contrast to all earlier empires, the American "empire" (if it is even sensible to use that term) was an empire of functions, not territory. The statistics of American "empire" are, by and large, statistics on the foreign deployment of American people and resources rather than American control of foreign people and resources. American expansion was distinguished by the failure of the United States to establish actual or formal political control over foreign territory. The minor exceptions simply highlight the significance of this fact: the occupation governments of Germany and Japan were ended after a few years; the one major colony of the United States, the Philippines, became independent right after the war; Okinawa and Micronesia were the only new areas brought under American rule for a sustained period of time. Yet, when people speak of the American empire, they do not usually mean Micronesia.

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In the American empire, if it be that, the American presence was thus almost everywhere, American rule almost nowhere. American expansion has been characterized not by the *acquisition* of new territories but by their *penetration*. In the past, the penetration of one society by the economic, religious, or military representatives of another society was usually the prelude to political acquisition. This has not been the case with the American empire, and there is nothing to suggest that it will be the case. The expansion of the American operational empire has thus not been incompatible with the multiplication of national sovereignties in the Third World. Indeed, in some respects, the multiplication of sovereignties has facilitated the growth of American transnational operations.

The expansion of transnational organizations and the simultaneous multiplication of national governments are both, in a sense, responses to the currents of social, economic, and technological modernization that are sweeping the world. The new developments in economics, technology, and management have made it possible for a functionally specific organization—such as a corporation or a military service—to operate on a global basis. At the same time, these and related social and political developments have made it impossible to exercise political authority on a global basis such as the British did in the late nineteenth-century heyday of the Empire. At that time, a few thousand Englishmen could govern several hundred million Indians on behalf of the government in Whitehall. The development of social and political consciousness among the Indian population eventually made that impossible; but the parallel development of communications and technological capabilities also made it possible for a British corporation to carry out its operations in India, Australia, Canada, and elsewhere, provided it had the consent of the local government.

Transnationalism is the American mode of expansion. It has meant "freedom to operate" rather than "power to control." U.S. expansion has been pluralistic expansion in which a variety of organizations, governmental and non-governmental, have attempted to pursue the objectives important to them within the territory of other societies. In some respects, the U.S. surge outward was almost as pluralistic as the outward surge of Western Europe in the sixteenth and seventeenth centuries. One could then speak of Western expansion but not of *the* Western empire because there were Spanish, Dutch, Portuguese, French, and English empires. Similarly, one can properly speak now of American expansion but not of *the* American empire, because there are so many of them. "The *Pax Americana*," as I. F. Stone put it, "is

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the 'internationalism' of Standard Oil, Chase Manhattan, and the Pentagon."[9] And, one must add, of much else besides.

This pattern of segmental, pluralistic, operational expansion evolves out of earlier American experience. In the late nineteenth century, the United States managed to be only a feeble imitator of European powers in the race for colonies. American interest was more in the expansion of trading opportunities than in the acquisition of territory. This interest received its most vivid manifestation in the Open Door policy in China. Here, precisely, was a policy designed to insure access rather than acquisition. This goal was, in many respects, the hallmark of American expansion out into the world, and it made concrete a set of concerns which have characterized much of American foreign relations ever since. In those early years, the Open Door was thought of primarily as an open door for trade. After World War II, in many countries the door was opened wider for bases, troop deployments, aid missions, and investment. The historical experience of the United States in its dealings with the rest of the world thus supplied the basic concepts, policies, and forms of organization for transnational operations. In this respect, the roots of transnationalism go back to late nineteenth-century America.

The implicit rationale for transnationalism also grows out of the American experience. As citizens of a democratic nation that originated in a struggle for national independence, Americans have not been able to develop a persuasive ideology of colonialism. In England even a nineteenth-century radical like John Stuart Mill could formulate a doctrine justifying British rule over more backward countries. Americans have notably failed to come up with anything of comparable quality. The U.S. acquisition of colonies at the turn of the century was, apart from the Philippines, almost entirely limited to small islands and other territories useful for naval bases. And the conquest of the Philippines caused such controversy and uneasiness in the United States that it soon led to the beginnings of self-government and to promises of independence. The United States could, with hearty enthusiasm, become expansionist, but it could not, in good conscience, become colonialist.

The American penetration of other societies was generally not justified by doctrines of colonialism comparable to those popular in other countries. The American case was rarely based on a claim to political or racial superiority which would give Americans the right to rule other peoples, but rather on a claim to technological or economic

[9] *I. F. Stone's Bi-Weekly*, XVIII (July 13, 1970), 1.

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superiority, which gave groups of Americans the presumed right—and even duty!—to perform certain specialized functions in other societies. Through this sort of rationale, Americans could reconcile the overseas operations which their economic dynamism warranted with the absence of formal political control which their anticolonial history proscribed.

American operational expansionism after World War II thus had roots in the American past. But it also represented a break with some aspects of that past. Before 1940 the United States had overseas bases in Guantanamo, Hawaii, Samoa, Manila, and Panama. These were, however, areas over which the United States exercised *de facto* if not *de jure* sovereignty; they were the U.S. counterparts to Gibraltar, Malta, Singapore, and Hong Kong. For the United States, as for the European powers, "pre-World War II bases 'abroad' were, in spite of the attempts of legal construction to the contrary, not abroad at all; they were cessions of territory, 'annexations deguisées,' poorly disguised at that, and indeed the ceding state was lucky if nothing more than the ceded part of its territory was annexed."[10]

The first break with this pattern came with the British-American destroyer-base deal of September 1940. Unlike earlier base leases, this did not involve a *de facto* change of sovereignty. American use of the bases was limited to the performance of certain military functions, and the arrangement was thus "a lease of specific privileges as distinguished from a cession of territory in the disguise of a nominal lease."[11] This set the pattern which was elaborated in a variety of ways in the post-World War II years. The end result, of course, was a striking phenomenon, unparalleled in world history: the military forces of one government deployed on a global scale in over three hundred bases in twenty-five different countries where that government had no formal authority as either an occupying power or a sovereign power. The primary significance of this phenomenon was not just its size but, even more importantly, its form. For the creation of this gigantic global network depended precisely upon the divorce of the power to operate military installations from the right to exercise political control. Without that divorce, the empire would have been still-born. The achievement of that divorce was a major innovation in statecraft.

The formal acts marking the expansion of other empires have been treaties of annexation or comparable documents providing for the

[10] George Stambuck, *American Military Forces Abroad: Their Impact on the Western State System* (Columbus, Ohio 1963), 22.
[11] *Ibid.*, 29.

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cession of territory. In contrast, the formal acts characterizing the expansion of the American empire have been agreements between U.S.-based transnational organizations and national governments specifying the terms and conditions of access by the agents of the one to the territory of the other. Leases, base arrangements, status-of-forces agreements, and their counterparts in the economic fields constitute the legal manifestations of the growth of the American empire.

American expansion has thus involved the generation and spread of transnational organizations pursuing a variety of specific goals in a multiplicity of territories. Economic aid missions, military bases, and corporate investments are only the most obvious and tangible symbols of U.S.-based transnationalism. This type of pluralistic, segmented expansion also led groups in other societies to create parallel and often competing transnational structures. The principal legacy of American expansion about the world is a network of transnational institutions knitting the world together in ways that never existed in the past. The question for the future is whether and how the contraction of the world brought about by the expansion of the American role will survive the contraction of that role. Once the political conditions which gave it birth disappear, how much transnationalism will remain?

IV. Authority in Transnational Organizations

The patterns of authority in transnational organizations differ greatly. They also change. They can, perhaps, best be analyzed in terms of sources of control, organizational structure, and nationality pattern.

A. SOURCES OF CONTROL

Transnational organizations may be controlled by national governments, national non-governmental groups, or international governmental or non-governmental bodies. During the quarter-century after World War II:

(1) Most transnational organizations were nationally, not internationally controlled.

(2) Most nationally controlled transnational organizations were controlled by Americans.

(3) The most prominent transnational organizations were U.S. Government agencies and U.S.-based "multinational" corporations.

With the shift in the American role in world affairs in the late 1960's and early 1970's, these patterns have been changing. U.S. Gov-

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ernment transnational operations are declining. This is obvious in the military field and it is probably true of the intelligence field. It is also true with respect to economic development and development assistance. In the 1950's and the early 1960's the expansion of the United States into the world in large part took the form of the creation and development of U.S. agencies designed not just to deal with other governments, but to operate within other societies. It was no accident that an AID mission in another society could be officially termed the "United States Operations Mission (USOM)." This type of activity was viewed as legitimate and desirable. The new-style foreign relations, it was argued, involved far more than diplomacy. In the late 1960's and early 1970's, however, a neotraditionalist reaction developed against this concept of foreign relations and in favor of less involvement in the domestic affairs of other societies, a drastic reduction in the size and functions of U.S. Government overseas activities, and a re-establishment of the pre-eminence of foreign office-to-foreign office diplomacy.[12] In the development field, for instance, the emphasis was on the desirability of cutting back the large overseas aid missions, of shifting any remaining functions for social and civic development to non-governmental or semi-governmental bodies such as the Inter-American Foundation, and of channeling increasing proportions of capital assistance through multilateral (that is, international) agencies such as the World Bank.

Other governments lagged far behind the U.S. Government in engaging in transnational operations. In part this stemmed from different purposes, fewer resources, and a more restricted world role. In some measure, it may also reflect, however, differences in political style and administrative structure. The diffuse, pluralistic character of the U.S. Government, combined with a typically pragmatic and *ad hoc* approach to problems, seems naturally conducive to the development of transnational organizations. The Soviet Government, in contrast, may have many of the same reasons to engage in transnational operations that the U.S. Government has had, but the centralized control, primacy of political objectives, and ideological approach of the Soviets may well make it much more difficult for them to develop and carry out such operations. Yet, transnational operations controlled by other governments could well increase in the future.

Privately controlled U.S.-based transnational organizations have not suffered an absolute decline comparable to that of U.S. Government-con-

[12] For an eloquent and persuasive statement of the neotraditionalist approach, see John Franklin Campbell, *The Foreign Affairs Fudge Factory* (New York 1971).

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trolled transnational organizations. There has been, however, a marked increase in the number, scope, and activity of transnational organizations controlled by non-U.S. private groups. Nationally controlled European corporations expanded their activities into other European states and, in some instances, quite successfully into the United States and other countries. Japanese corporations began to engage in operations in Latin America and Southeast Asia.

For reasons elaborated earlier, internationally controlled organizations are less likely than nationally controlled ones to engage in large-scale transnational operations. An internationally sponsored transnational organization can only operate effectively if it is able to divorce its operations from the need to negotiate compromises among national delegations or if, behind a formal structure of international authority, effective control does rest primarily with one or a few national groups. The effectiveness of the World Bank, for instance, in carrying out transnational investment operations was in large part a product of the pre-eminent role which Americans played in the bank in its early years. Similarly, the leading role of the Japanese gave the Asian Bank the leadership and resources necessary to get off to a successful start. While leadership from a particular national group may be important in getting an internationally controlled transnational organization under way, it is also quite possible that once such an organization has developed its momentum, direction, and resources it will be able to develop internally the leadership to carry on and to expand its operations, provided its management is able to carve out a sphere of autonomy from its board of directors or other internationally constituted governing group. In some measure, this seemed to be the condition which made it possible for the World Bank to expand its operations in the 1970's.

The longer-term pattern of evolution for transnational organizations could well be from national control to international control or to self-control by the management and staff of the organization itself. The impetus and resources to develop a large-scale transnational operation almost always have to be furnished by a group of people of common nationality who see the need or desirability of expanding their operations into a number of different countries. Their ability to increase both the number of societies in which they operate and the extent of their operations within any one society, however, depends upon the consent of the national governments of the host societies. Such governments are in general more likely to be willing to grant access to privately controlled transnational organizations than to ones controlled

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by another government, and more willing to grant access to internationally controlled transnational organizations than to nationally controlled ones. Thus, though the creation of a large-scale transnational organization usually requires national sponsorship, its long-term growth may be enhanced by a weakening of that sponsorship.

B. ORGANIZATIONAL STRUCTURE

Within a transnational organization, authority may be distributed in a variety of ways. In the most general terms, such an organization may be highly centralized or decentralized, and it may be organized in terms of geographical or functional subdivisions or some combination of both. Ultimate control, however, has to rest with a central headquarters, and the autonomy of the parts cannot extend to the point where they may, on their own volition, secede from the organization.

The pressures for both centralization and decentralization in a transnational organization are comparable to but in many respects more intensive than those in any large-scale organization. The improvements in communications and transportation that make it possible to exercise effective control over a far-flung global bureaucracy from a single headquarters are, of course, precisely what has made possible the widespread emergence of transnational organizations. In earlier years, for instance, private companies may have owned or controlled overseas subsidiaries. Only during the last quarter-century, however, have they been able to impose a unified plan of operations on such subsidiaries. Before the 1950's, as Behrman has said, overseas affiliates usually "operated as though they were commercially independent of the parent." Now, however, "what distinguishes the multinational enterprise from its predecessors is the centralization of policy and the integration of key operations among affiliates."[13] In somewhat similar fashion, the oldest and largest transnational organization, the Roman Catholic Church, is "a much more integrated international organization" today than it was a century ago. Like the private corporations doing business overseas, the "church in the 1970's shows more structural integration, indicated by a heightened increase of communication and contact between the center and the peripheries; a more integrated linkage between national hierarchies and the Holy See . . .; and a higher rate of transactions between national church systems, indicated by personnel transfers, material aid, and cooperative plans. The inter-

[13] Behrman (fn. 5), xiii-xiv.

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national church has gained structural strength because it has been able to move beyond an earlier, segmental pattern. . . ."[14]

For most types of transnational organizations, the long-term trends are undoubtedly toward greater centralized control. But movement in this direction may often be interrupted or reversed by functional, institutional, and political forces making for greater autonomy of constituent units. The most important influence in this direction is, of course, the nation-state itself. Permission to operate in a particular national territory may often be granted on the condition that the local unit be given sufficient autonomy from the organizational headquarters so as to be responsive to regulations and control by the local national government. These considerations may also affect the predominant basis of organization within the transnational body. It has been argued, for instance, that corporations organized on a functional as distinguished from an area basis are more susceptible to influence by host governments and hence that host governments favor that form of organization.[15] In addition, the forms of central control may change over time. Vernon, for instance, suggests that transnational corporations evolve through three phases. An initial phase of decentralization is "superseded by another stage in which tighter controls from the center" are "the common rule." In the third phase, the "mature" transnational corporation makes "a seeming return to decentralized operations," and "authority for many decisions" is "delegated back to the subsidiaries or distributed to regional headquarters." This decentralization, however, is in part the product of the development of standard procedures and routines which pertain throughout the transnational corporation, and of the creation of a centrally trained corps of managers who will deal with problems in a common "company" way. "Enough conditioning, it is assumed, will breed the necessary conformity while allowing for local initiative and local adaptation."[16]

A high level of centralization gives a transnational organization flexibility in being able to redirect personnel and resources from one part of its empire to another. One of the advantages which American corporations have had in comparison with many European "multinational" corporations is that the American firms have been more highly integrated; the European companies have tended to be more

[14] Ivan Vallier, "The Roman Catholic Church: A Transnational Actor," in Keohane and Nye (fn. 1), 147-48.

[15] Louis T. Wells, Jr., "The Multinational Business Enterprise: What Kind of International Organization?" *ibid.*, 104-05, 110-11.

[16] Vernon (fn. 4), 132-34.

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loosely structured international holding companies. This advantage of centralization holds true for religious, military, and other types of transnational bodies as well as for economic ones. In the 1950's, for instance, the Catholic Church responded to the perceived threat from the appeal of Marxist ideologies in Latin America in much the same way that General Motors would have responded to the perceived threat from the appeal of Volkswagen in Latin America. The Church in Latin America was, at this time, "short on personnel, funds, action models, and laymen who could be mobilized to extend the Church's influence to new groups and marginal strata." As a result of its transnational integration, however, the Church was able to mobilize resources from elsewhere to meet this regional challenge. "Under these conditions—high threat, low resources in local units, and quite open national boundaries—the transnational church, in close cooperation with local hierarchies, swung into action. Problem-solving strategies were transferred from other sectors of the world church, funds poured in, new contingents of trained personnel were deployed, and a variety of new institution-building sequences were begun."[17]

C. NATIONALITY PATTERN

Transnational organizations usually draw their personnel from the societies in which they operate. There are major advantages to employing local personnel in local operations. Normally, however, there is also a clearly dominant nationality in the organization. The distribution of the dominant nationality and other nationalities within the organization may approximate one or more of three ideal-types. In the *dominant* nationality pattern, all the principal management posts in both the central headquarters and in the country units are occupied by members of the dominant nationality. In the *dispersed* nationality pattern, the central headquarters remains the exclusive preserve of the dominant nationality, but the country subdivisions are managed primarily by local personnel. In the *integrated* nationality pattern, local personnel are predominant in the country subdivisions with some admixture of non-local personnel, and personnel of other nationalities share significantly in the direction of the central headquarters with the dominant nationality.[18]

[17] Vallier (fn. 14), 142; on the differences between American and European businesses, see Behrman (fn. 5), 13-14.

[18] These distinctions in terms of nationality distribution parallel the broader patterns of ethnocentric, polycentric, and geocentric organization in multinational corporations analyzed by Howard Perlmutter, "The Tortuous Evolution of the Multinational Corporation," *Columbia Journal of World Business*, IV (January-February 1969), 12.

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The extent to which a transnational organization adheres to one or another of these patterns reflects its source of control. Transnational organizations controlled by a national government almost invariably adhere to the dominant nationality pattern. Internationally controlled transnational organizations, as well as self-controlled ones, normally tend to be integrated, although one nationality is often more equal than the rest. Nationally controlled private organizations often tend to evolve through three phases. In the first phase, the dominant pattern prevails. The leadership in creating the local units normally comes from the center and from the dominant nationality group. Local personnel are hired in subordinate positions for the local units, but the management positions in those units as well as at the center are monopolized by the dominant nationality. For U.S.-based multinational corporations, for instance, it is reported that approximately 21 per cent of their employees, but only 1.5 per cent of their managers, were non-Americans. Similarly, in the Ford Foundation in 1969, only 13 per cent "of the 463-member professional staff of the International Division were not Americans, and only thirteen of the non-Americans [less than 3 per cent of the total] were involved in the development of foundation program areas as opposed to the implementation of grant projects."[19]

In due course, however, the acquisition of the required technical and managerial expertise by local personnel, often accompanied by direct or perceived potential political pressure, leads the organization to shift toward the dispersed pattern. Local personnel play a more and more important role in the direction of the local enterprise and eventually take over its management. This has happened, for instance, in many U.S.-based transnational corporations in the raw-materials field. ARAMCO increased the proportion of Arabs in supervisory jobs from almost none in the 1940's to about 56 per cent in 1967. The proportion of Indonesians in Caltex in Indonesia went from a similarly low level in the late 1950's to 80 per cent in 1969. The comparable ratio in the Venezuelan subsidiary of Standard Oil of New Jersey rose from 48 per cent in 1959 to 68 per cent in 1964.[20] The take-over of the management of the local unit by local personnel can, however, pose problems for the transnational organization. Ambitious local managers, if they are unable to advance into the central management, may seek more inde-

[19] Sidney E. Rolfe, *The International Corporation* (Paris 1969), 76, cited in Keohane and Nye (fn. 1), xvi; Peter D. Bell, "The Ford Foundation as a Transnational Actor," *ibid.*, 120.

[20] Vernon (fn. 4), 55.

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pendence for their local unit. The nationality pattern within the organization coincides with the nation-state pattern outside the organization. External cleavages therefore could reinforce internal ones and lead to a weakening of central control, the fragmentation of the organization, and either its evolution into a crossnational federation or even its complete dissolution. Alternatively, if upward mobility is blocked within the organization, local managers may abandon it. "White Negroism" was the explanation which one Belgian gave as to why young European executives were leaving American-owned subsidiaries. "You have to accept the fact that the only way to reach a senior post in our firm is to take out an American passport," added a British executive commenting on this problem.[21]

The avoidance of administrative fragmentation or loss of executive talent provides strong incentives to the central leadership of the transnational organization to move from a dispersed to an integrated nationality pattern. An integrated pattern is also likely to produce a more uniform outlook on organizational problems among managers, irrespective of their nationality, and hence also to permit some shift back to more decentralized decision-making without threatening organizational unity. The shift to an integrated pattern, however, requires overcoming many obstacles, particularly cultural and linguistic differences. The multinationalization of central headquarters almost always proceeds much more slowly than the "localization" of local management. Among transnational corporations, for instance, Nestlé is distinguished as one which has moved furthest in this direction, with one-third of the executives in its central headquarters being non-Swiss.[22]

Traditions of national dominance die hard even in an organization like the Catholic Church, which is both an old organization and one which is, in theory, at least, self-controlled. Only recently, as one aspect of the increasing integration and centralization in the Church, has there been a significant change in the nationality make-up of the central headquarters. In 1961 Italians occupied 57 per cent of the 1,322 Curia posts in the Holy See. By 1970 they occupied only 38 per cent of 2,260 such positions. The numbers and proportions of Asian, Latin American, and African priests in the Curia went up strikingly during the course of the decade.[23] But the language, atmosphere, and

[21] Christopher Tugendhat, *The Multinationals* (London 1971), 195. See also John Thackray, "Not So Multinational, After All," *Interplay*, II (November 1968), 23-25.
[22] Tugendhat (fn. 21), 196.
[23] *New York Times*, July 1, 1970, p. 2.

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practices within the Curia have remained predominantly Italian as the recruits from the other nationalities to the central headquarters have adjusted to the prevailing customs of what had been the dominant nationality.

V. Transnational Organizations in National Politics

In most instances, a transnational organization can conduct its operations only with the approval of the government claiming sovereignty over the territory in which it wishes to operate. Consequently, the transnational organization and the national government have to reach an *access agreement* defining the conditions under which the operations of the former will be permitted on the territory of the latter. The contents of this agreement will reflect the relative bargaining strengths of the two parties. In some instances, the transnational organization may have a clear upper hand and be able to secure access on very favorable terms. It may, for instance, in classic imperial form, be able to threaten sanctions by the national government of its home territory if it is not given access on the terms which it desires. More generally, the terms of the access agreement will reflect: (a) the benefits which each side perceives for itself in the conclusion of an arrangement; (b) the inherent strength of each side in terms of economic resources, coercive power, leadership skill, and organizational coherence; and (c) the alternatives open to each side to secure what it wishes through arrangements with another organization or another government.

Apart from the instances where the transnational organization can bring coercive pressure to bear on the national government, the latter will presumably agree to the operations taking place on its territory only if those operations themselves serve the purposes of the national government or are compatible with those purposes, or if the transnational organization has paid a price to the government to make those operations acceptable. In either case, the local national government receives benefits by trading upon its control of access to the national territory. As transnational organizations become larger and more numerous, the demands for access to the territory of nation-states will also multiply. The value of that access, consequently, will also go up. The national governments who control access will thus be strengthened. In this sense, the growth of transnational operations does not challenge the nation-state but reinforces it. It increases the demand for the resource which the nation-state alone controls: territorial access.

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Within the nation-state, those groups which dominate the national government are similarly able to use the increased value of their control over access to the national territory to strengthen their own position vis-à-vis other groups in their society.

The price that a transnational organization has to pay for access to national territory will thus, in part, depend on the extent to which the government controlling that territory perceives those operations as contributing to its purposes. If the operations clearly serve the government's purposes, it may offer considerable inducements to the transnational organization to locate its operations there. This might be the case, for instance, with a factory which not only provided local jobs but also either met an urgent local need for its product or earned needed foreign exchange by the export of its product. It would also be the case with military installations which contributed to local defense. In other instances, however, the installations of the transnational organization may contribute very little to the purposes of the local government. This is presumably more likely to be the case the more global the scope of the overall operations of the transnational organization and the more tightly integrated the conduct of those operations. In these cases, the transnational organization may have to pay a heavy price to conduct its operations on a particular piece of territory. The West German Government contributes substantial amounts to the U.S. Government to insure that U.S. forces remain in Germany, because those forces contribute to local defense. The U.S. Government, on the other hand, pays substantial amounts to the Spanish Government to maintain U.S. air and naval bases in Spain, because those bases do not directly contribute to a local defense need. Those who criticize the "high price" which the U.S. Government pays for bases in countries like Spain or Ethiopia underestimate the bargaining power of those governments. They assume that the presence of the base demonstrates the subservience of the local government to U.S. wishes. But in fact the base and the price paid for it are evidence of the autonomy of those governments and of the differences between their goals and those of the U.S. Government's transnational organizations.

One of the curious phenomena of post-World War II international politics was, indeed, the striking contrast which often existed between the awesome and overwhelming military, logistical, material, technological, and economic presence of U.S.-based transnational organizations in a society, which at times seemed likely to suffocate the local society, and the degree of political influence which the U.S. Government exercised on the government of that society. The former often

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seemed out of all proportion to the latter. American organizations easily penetrated the local society; the local government easily, blandly, and, to Americans, infuriatingly, resisted the advice and demands of the U.S. Government. The American presence may have been overwhelming; American influence almost always fell far short of that.

The reasons for this gap lie, of course, in the motives for the presence of the U.S.-based transnational organizations and in the nature of their operations. The American organizations were often present in the country not to serve the needs of that country as defined by its rulers and elite, but to serve their own interests which, however, might well be rationalized in terms of the interests of the local country. The Americans were there in the way in which they were there because they were convinced that it was important *for them* for them to be there, not because the local government thought that it was important *for it* for them to be there. In many cases, therefore, the manifestations of the U.S. presence, such as military bases, were not sources of American political influence in the local society but rather drains upon it; local governments had to be persuaded, induced, or bribed to permit the activity to occur. U.S.-based transnational operations in some societies were not levers but hostages. The goals of the transnational organizations transcended those of the local society, and the organizations paid what they had to to the local government in order to carry on their activity, which contributed to goals in which the local government often had little direct interest.

The political costs of maintaining a presence thus often exceeded the local political benefits generated by that presence. In addition, however, to the extent that the goals of the U.S.-based transnational organizations reflected only the general interests of the organizations and were not specific to the society in which the operation occurred, the transnational organizations themselves had no interest in the local political system so long as it did not obstruct their ability to operate. U.S.-based transnational organizations indeed often went to extreme lengths to deny that their local operations had any effect on local politics. Far from wishing to exercise political influence in the local society, their goal was to be as far removed from local politics as possible. The transnational religious activities of the Catholic Church, it has been argued, are facilitated by the separation of state and church in a country.[24] The transnational economic and military activities of U.S.-based transnational organizations are similarly facilitated if these oper-

[24] Vallier (fn. 14), 137-38.

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ations can be separated from local politics. From the viewpoint of the transnational organization, the ideal situation would be one in which the local political system and the transnational operation had nothing to do with each other. The typical American attitude would be: "Let us operate our air base; mine copper; provide technical advice to the engineering school—all without involvement with local politics." The aim of the Americans would not be to control the local government, but to avoid it.

The operations of transnational organizations thus usually do not have political motivations in the sense of being designed to affect the balance of power within the local society. They do, however, often have political consequences that actually affect that balance. Insofar as the transnational organizations have to come to terms with the dominant groups in the local political system in order to secure access to a country, their operations will tend to reinforce, or at least not injure, the position of those groups. The immediate general impact of transnational operations on a society is thus likely to be a conservative one. The longer-run general impact, however, may be quite different. The transnational organization typically brings into the local society new activities which could not be performed as well by local organizations. Insofar as the transnational organization is itself based in an economically more developed society than the one in which it is conducting its operations, it tends to be a major transmission belt for new styles of life, new ideas, new technology, and new social and cultural values that challenge the traditional culture of the local society. In addition, of course, while the immediate impact of transnational operations generally reinforces the powers that be, it may also redistribute power among those powers. The transnational organization brings new resources—equipment, technology, capital, personnel—into the society. Quite apart from whatever purposes it may have, the way in which those resources enter the society, and their location in that society, will benefit some specific groups at the expense of others. Investments by transnational corporations stimulate growth in some industries and regions but not in others. Economic and military assistance programs strengthen economic planning agencies and military services as against other bureaucratic and political groups.

Access agreements between governmentally controlled transnational organizations and national governments obviously appear in the traditional form of intergovernmental agreements. In substance, however, they often differ little from the agreements negotiated between a privately controlled transnational organization and a national govern-

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ment. The weight of the controlling government presumably plays a significantly greater role, however, in the negotiation of the former than of the latter. Officials on both sides may see the intergovernmental access agreement as an integral part of their overall political and diplomatic relations. With respect to private organizations, however, pressure from the home government generally does not, except in unusual cases such as the Middle East in the 1920's, play a significant role in securing initial access. The home government is much more likely to enter the picture if the host government attempts to terminate access or to change the conditions of access. In the past, this could and, at times, did produce U.S. military or paramilitary intervention (as in Guatemala in 1954) to maintain the access of U.S.-controlled transnational corporations and agencies. More frequently, actions by governments denying or curtailing transnational operations are met by diplomatic protests and economic sanctions by the home government. With some exceptions (of which Vietnam is the most notable), the bulk of U.S. Government interventions—military, economic, and political—in the domestic politics of Third-World states after World War II have been relatively discrete, *ad hoc* efforts to maintain or to restore previously existing access conditions for U.S.-based transnational organizations rather than efforts to achieve more comprehensive purposes.

Current issues concerning access to national territory by transnational military organizations, corporations, and foundations do not differ substantially from those which for many years have concerned the Roman Catholic Church. The goal of the Church is to carry on its religious activities on as broad a scale as possible. Throughout the centuries this has meant that it must come to terms with national governments for access to their territories. "Whenever the Holy See takes up pastoral policies, educational activities, or missionary work, it is faced with the problems of legitimating itself to national governments, gaining access to politically sovereign territories, . . . and preserving and strengthening relationships between local churches and the transnational center in Rome."[25] The goals of the Church in negotiating with a national government do not differ significantly from those of other transnational organizations. With appropriate changes in wording, the following could presumably describe the goals of Mobil Oil or Philips: "In its relationships with nation-states the Holy See undoubtedly holds as an ideal a situation in which it has free or untram-

[25] *Ibid.*, 135.

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meled access to a country, in which the government guarantees to protect and support the Catholic faith, and in which the Holy See's controls over central ecclesiastical matters are fully specified and legalized in the form of an international agreement or concordat."[26] This type of arrangement for "privileged access" has existed in only a few countries, such as Colombia. Almost equally favorable from the Church's viewpoint, however, are the situations in those societies (France, United States, Chile, for example) where there is complete separation of church and state, and which thus furnish the Church "unusually favorable opportunities for transacting business across their boundaries."[27]

To regularize its ability to carry on its activities, the Church seeks an access agreement with the controlling government. "It tries to get a Concordat, that is to say something which approximates to an International Treaty between itself (as representing the interests of the local Church) and the particular Government. If it cannot get a Concordat, it will be satisfied with a *modus vivendi*. If it cannot get a *modus vivendi* it will try for an informal arrangement, a gentleman's agreement or—to give it its somewhat cruder Italian title—a *combinazione*."[28] Like a transnational business corporation, the Church is not normally concerned with the political or even religious nature of the government with which it is dealing, so long as it is possible to arrive at an agreement permitting the Church access to the territory controlled by the government. The Church's goals are limited; it does not aim to challenge or alter the structure of political authority; it simply wants freedom to carry on its religious operations. As Pope Pius XII put it in 1953: "It is always one of the essential tasks of the Holy See to see that, throughout the entire world, there reigns between church and state normal and, if possible, friendly relations, in order that Catholics may live their faith in tranquillity and peace and that the Church may, at the same time, provide for the state that solid support which it constitutes wherever it is allowed to carry on its work in freedom."[29]

At times people have drawn parallels between the Catholic Church

[26] *Ibid.*, 135-36. [27] *Ibid.*, 138.

[28] D. A. Binchy, "The Vatican and International Diplomacy," *International Affairs*, XXII (January 1946), 49, quoted in Ivan Vallier, "The Roman Catholic Church as Transnational Actor: Preliminary Notes" (unpub., 1970), 24-25.

[29] Quoted in Robert A. Graham, *Vatican Diplomacy: A Study of Church and State on the International Plane* (Princeton 1959), 6-7. In a similar vein, Pope Leo XIII stated that "it is not the Church's province to decide which is best among many diverse forms of government" but instead to work with any political system that is prepared to uphold the "respect due to religion and the observance of morality." Encyclical *Sapientiae Christianae*, quoted in D. A. Binchy, *Church and State in Fascist Italy* (London 1941), 87.

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and international communism. In the terms which concern us here, however, it is the differences between these two movements that are more striking. The communist goal is to gain political control of the nation-state by destroying the existing state structure and creating a revolutionary new political system. The Church's goal, in contrast, is not national control but transnational operation. The communists, moreover, purchase national control at a price: it can and has disrupted and divided international communism. Within the transnational church, on the other hand, the avoidance of national political control facilitates the resolution of differences. At one level, communist parties pose a challenge to the Church in offering an alternative secular faith. In a quite different and, in a sense, much more effective way, communist governments challenge the Church by denying it access to their territories or by permitting only a most restricted form of access. Communism, in this sense, is a threat to the Church, not because it is materialistic and anti-religious, but because it is nationalistic and anti-transnational. In some measure, the conflict between a communist government and the Catholic Church is the archtypical conflict between the most nationalistic form of the nation-state and the most transcendent form of the transnational organization.

VI. Transnational Organization vs. the Nation-State?

The rise of transnational organizations after World War II was a product of American expansion on the one hand and technological development on the other. For a quarter of a century these two trends reinforced each other. Now, however, the American impetus to involvement in the world is waning. The American will to lead, to promote economic and cultural interaction and integration, to maintain militarily the outer boundaries of a world-wide system and to foster politically free access within that system has declined markedly. In the immediate future, U.S. Government-based transnational organizations are likely to decline in importance compared to privately controlled organizations; U.S.-controlled transnational organizations will decline in relative significance compared to those controlled by other nations and by international bodies. The question remains, however, how these changes in the relationships among nation-states will affect the overall role of transnational organizations. The pre-eminence of one nation-state in large portions of the world favors the emergence of transnational organizations under the sponsorship and control of that nation-state. This is peculiarly the case when that state has a

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highly pluralistic and open political and institutional tradition that is conducive to the generation of transnational bodies. World politics is now moving in the direction of a bipolar military balance between the superpowers, a multipolar diplomatic and economic balance among the great powers, and increasing discrepancies in power tending toward regional hegemonies among the less developed states. This structure of world politics could be far less conducive to the emergence and operation of transnational organizations than one in which one center predominated. Clearly it favors a dispersion of control over transnational organizations. It may also favor a slowdown in their numerical growth and some restriction in the geographical scope of their activities.

While the political preconditions for transnationalism have changed significantly, the technological dynamic has continued without slowdown. "The extraordinary improvements in international communication and transportation seem destined to continue, accompanied by more Intelsats, Concordes, IBM 370's, and all the other modern instruments for shrinking time and space. The relative decline in the costs of communication and transportation is likely to increase the advantages of large-scale producing units and to increase the size of manageable enterprises."[30] Business corporations, aid agencies, military services, foundations, churches, public service organizations, all will have an increasing capacity to operate on a global scale and, presumably, increasing incentives to capitalize on the opportunities which this capacity gives them. Functional bureaucracies will feel ever more cramped by national boundaries and will devise means to escape beyond the boundaries within which they were born and to penetrate the boundaries within which they can prosper. Existing transnational organizations will find it in their interest to continue to integrate their activities and to tighten the organizational bonds which cut across national borders.

Politics and technology thus seem to be at odds. On the one hand, in an atmosphere of American political withdrawal and balance-of-power diplomacy, national governments may feel increasingly confident in confronting transnational organizations. A nationalist backlash could be in the making, producing new restrictions on the autonomy and scope of transnational organizations, and in some cases ousting transnational organizations from the national territory and bringing their local assets under full national control. Given this

[30] Vernon (fn. 4), 251-52.

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scenario, the transnational organization could be seen as a transient phenomenon unable to outlast the political conditions responsible for its emergence. Transnational operations could fragment and disappear in the face of a rise in nationalist autarky.

Some observers, on the other hand, have seen the rise of the transnational organization, particularly the "multinational" business corporation, as challenging the future of the nation-state. As one leading American banker put it, "the political boundaries of nation-states are too narrow and constricted to define the scope and sweep of modern business." We have, consequently, seen the rise of "the new globalists," the "advance men" of "economic one-worldism" who see "the entire world as a market," and we may be evolving into a period in which "businessmen often wear the robes of diplomats" and "are more influential than statesmen in many quarters of the globe."[31] The transnational corporation, George Ball has said, "is a modern concept evolved to meet the requirements of the modern age" while the nation-state "is still rooted in archaic concepts unsympathetic to the needs of our complex world."[32] In similar terms, Arthur Barber has argued that the transnational corporation "is acting and planning in terms that are far in advance of the political concepts of the nation-state." Just as the Renaissance ended feudalism and the dominant role of the Church, so this twentieth-century renaissance is "bringing an end to middle-class society and the dominance of the nation-state."[33]

These predictions of the death of the nation-state are premature. They overlook the ability of human beings and human institutions to respond to challenges and to adapt themselves to changed environments. They seem to be based on a zero-sum assumption about power and sovereignty: that a growth in the power of transnational organizations must be accompanied by a decrease in the power of nation-states. This, however, need not be the case. Indeed, as we have argued, an increase in the number, functions, and scope of transnational organizations will increase the demand for access to national territories and hence also increase the value of the one resource almost exclusively under the control of national governments. The current situation is, in this respect, quite different from that which prevailed with re-

[31] William I. Spencer (President, First National City Corporation), "The New Globalists" (Address before American Chamber of Commerce, Frankfurt, Germany, September 6, 1972).

[32] George W. Ball, "Cosmocorp: The Importance of Being Stateless," *Atlantic Community Quarterly*, VI (Summer 1968), 165.

[33] Arthur Barber, "Emerging New Power: The World Corporation," *War/Peace Report*, VIII (October 1968), 7.

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spect to state governments and national corporations within the United States in the nineteenth century. There, the Supreme Court held that except in rare circumstances, state governments could not deny or restrict access to their territory by businesses based in other states. The interstate commerce clause left such regulatory power to Congress. In the absence of any comparable global political authority able to limit the exclusionary powers of national governments, transnational organizations must come to terms with those governments.

By and large, private transnational corporations have recognized this fact and have attempted to deal with national governments in a conciliatory manner.[34] The proponents of the transnational corporation also recognize this fact when they argue that the imposition of local restrictions and controls on the operation of the transnational corporation will "necessarily impede the fulfillment of the world corporation's full potential as the best means yet devised for using world resources according to the criterion of profit, which is an objective standard of efficiency." To avoid this situation, they advocate creating by treaty an International Companies Law which could "place limitations . . . on the restrictions that a nation-state might be permitted to impose on companies established under its sanction."[35] The probability of national governments arriving at an international agreement to limit their own authority, however, would appear to be fairly remote at the present time. In the absence of any such mutual voluntary abnegation of power, the national governments will retain their control over access.

National governments capitalize on that control by granting access on conditions satisfactory to them. A government may, of course, use its control over access foolishly or corruptly. If, however, it uses it wisely, granting access to private, governmental, and international transnational organizations in such a way as to further its own objectives, it is far from surrendering its sovereignty. It is, instead, capitalizing on its control over one resource in order to strengthen itself through the addition of other resources. The widespread penetration of its society by transnational organizations will, obviously, have significant effects on that society. But that does not necessarily mean an impairment of the sovereignty of the national government. The Government of Thailand, for instance, has negotiated wide-ranging agreements giving U.S. corporations, the U.S. Air Force, the World Bank, and other international organizations access to its territory. In the

[34] Vernon (fn. 4), 261-62.

[35] George W. Ball, "Making World Corporations Into World Citizens," *War/Peace Report*, VIII (October 1968), 10.

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process it has not only contributed to the development of its own society, but it has also greatly strengthened itself as a government. The Burmese Government, on the other hand, has closed the door to virtually all transnational organizations and has thus denied to itself and to its society the benefits which might have accrued through the use of one of the few resources which it does control. As a result of these different policies, in what sense now is the Government of Thailand any less sovereign than the Government of Burma? The former has flexed its sovereignty; the latter has buried it.

The end of the European colonial empires was followed by the creation of a large number of new nation-states often lacking established institutions, consensus on the bases of legitimacy, and sizeable, technically well-trained, and politically skilled elites, as well as any inherited sense of national unity and identity. Many such countries in Africa and some in Latin America and Asia have been labeled "nonviable." Yet at the same time, many such countries are also in the grip of fissiparous tendencies that threaten to break up the existing fragile nation-state into even smaller units. While functional imperatives seem to be making transnational organizations bigger and bigger, cultural and communal imperatives seem to be encouraging political units to become smaller and smaller. "Tribalism" in politics contrasts with "transnationalism" in economics. Yet these contrasting patterns of development are also, in some measure, reinforcing. The nation-states of today which are labeled "unviable" and those still smaller entities which may emerge in the future could well be made viable by the operations of transnational organizations that link activities within one state to those in other states. The sovereignty of the government may, in this sense, be limited, but the sovereignty of the people may be made more real by the fact that the "sovereign" unit of government is smaller, closer, easier to participate in, and much easier to identify with.

With respect to the coexistence of the nation-state and the transnational organization, the case can, indeed, be made that at the present time the existence of one not only implies but requires the existence of the other. These two entities serve different purposes and meet different needs. They are often in conflict, but the conflict is rooted in differences rather than similarities in function. Two states may conflict because they wish to exercise sovereignty over the same piece of territory; two corporations may conflict because they sell similar goods in the same market; two parties may conflict because they attempt to win the same votes. In all these cases the competitive entities are similar in function, structure, and purpose. The competing entities

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are essentially duplicates of each other. Such *duplicative conflict* is often zero sum in character and involves, potentially at least, the survival of one or both parties to the conflict. *Complementary conflict*, in contrast, involves entities performing essentially different functions; the competition stems from this dissimilarity of function. In these instances, the existence of the parties is not usually at stake. Each has some interest in the survival of the other as an inherent component of a system of which they are both part. Within that system, each also has a role to play which inevitably brings it into conflict with the other type of institution, playing a different role. This conflict is incidental to each institution's performance of its respective functions, and the conflict between the institutions is limited by their difference in functions. In a sense, the conflicts are almost jurisdictional in nature, an inevitable friction in the working of the system. Indeed, these conflicts are often not referred to as rivalries but as "relations." One speaks of legislative-executive relations, labor-management relations, civil-military relations, government-business relations. The assumption is that the two parties must "relate" to each other in order to function at all: industrial production requires labor *and* management; war requires politicians *and* soldiers. One institution cannot obliterate the other without transforming itself and becoming a functionally different institution. (In systems where functional differentiation is not very far developed, this may well happen, as when a military junta displaces a party regime in a less developed country.)

The conflict between national governments and transnational organizations is clearly complementary rather than duplicative. It is conflict not between likes but between unlikes, each of which has its own primary set of functions to perform. It is, consequently, conflict which, like labor-management conflict, involves the structuring of relations and the distribution of benefits to entities which need each other even as they conflict with each other. The balance of influence may shift back and forth from one to the other, but neither can displace the other.

In fact, the balance between a transnational organization and a national government often does appear to move through three phases. In the first phase, the initiative lies with the transnational organization which often secures access to the territory controlled by the government on very favorable terms. In the second phase, the government asserts control over the local operations, perhaps even displacing the transnational authority completely. In the third phase, the transnational

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organization returns to the scene and a new equilibrium is worked out between the two entities.

This sequence has, in some measure, manifested itself in the relations between national governments and both the Catholic Church and business enterprises. Normally, too, the second phase of nationalist reaction often occurs during a period of political instability and governmental weakness. Thus, at various times in history, governments of Catholic countries have acquired extensive controls—patronage rights—over the Church in their country, including power over the creation of dioceses, the appointment of bishops, the veto of papal communications. These governments, such as the Spanish Government in the sixteenth century, in effect nationalized the Church just as twentieth-century governments have nationalized foreign business. Their action also stemmed from similar political needs. "It seems that wherever one finds a Catholic country in the West that is unsure of itself politically, it will attempt to maximize the scope of political control over ecclesiastical affairs."[36] The assertion of control over the Church, in short, reflects political weakness rather than strength.

The same is also often true with the assertion of control over transnational business corporations. Such nationalizations often occur at times of intense domestic conflict and tension. Weak governments resort to nationalization as a way of mobilizing popular nationalist sentiment behind the government. Strong governments, on the other hand, even though they may be committed to a radical nationalist ideology, do not need to appeal to popular chauvinism and are able to deal as equals with foreign business. Postrevolutionary governments in Mexico, Algeria, Yugoslavia, as well as in the countries of the Soviet bloc in Eastern Europe, have made mutually beneficial arrangements with private corporations that would be beyond the capacity of less stable Third-World polities. In a broader sense, also, the more stable and highly developed political systems in Western Europe and Canada have been able to tolerate levels of transnational activity far beyond those which would be possible in countries with more fragile regimes. Some years ago Samuel Beer upset the conventional academic contrast of British ("strong parties") politics and American ("strong pressure groups") politics by arguing persuasively that in Britain both parties *and* pressure groups were stronger than they were in the United States, and that there was in some measure a necessary relationship

[36] Vallier (fn. 14), 139.

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between these phenomena.[37] In a similar vein, strong transnational organizations and strong national governments may also develop together.

The novelty and, indeed, the revolutionary character of the transnational organization stem in large part from the fact that it has emerged apart from the existing structure of international relations. It is an outgrowth of the nation-state, but it is founded on a principle entirely different from nationality. In economic history, the impetus for change came from neither feudal lord nor feudal peasant but rather from a new urban class of merchants and entrepreneurs who developed alongside but outside the feudal social structure. And, as Marx recognized, this was the revolutionary class. Similarly, today the revolutionary organizations in world politics are not the national or international organizations which have been part of the nation-state system, but rather the transnational organizations which have developed alongside but outside that system. Just as the bourgeoisie represented a principle of production foreign to the feudal system, so does the transnational organization represent a principle of organization foreign to the nation-state system. In Marx's terms, the capitalist forces of production outran the feudal relations of production. Today, man's capacities for organization are outrunning the nation-state system. Internationalism is a dead end. Only organizations that are disinterested in sovereignty can transcend it. For the immediate future a central focus of world politics will be on the coexistence of and interaction between transnational organizations and the nation-state.

[37] Samuel H. Beer, "Group Representation in Britain and the United States," *Annals of the American Academy of Political and Social Science*, CCCXIX (September 1958), 130-40.

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FOREIGN EXPANSION AS AN "INSTITUTIONAL NECESSITY" FOR U.S. CORPORATE CAPITALISM:

The Search for a Radical Model

By THEODORE H. MORAN*

IS foreign economic expansion in some sense an "institutional necessity" for corporate capitalism in the United States? Is there something inherent in the internal dynamics of American capitalism that creates such strong pressures for foreign private investment that the U.S. Government must consider the creation and preservation of an international system that facilitates such expansion to be among our most vital national interests? What yardstick can measure the opportunities, the needs, the necessity of investing abroad, or the cost and risk if the option of foreign private investment is threatened?

Traditional theories of imperialism have traced the impetus for foreign economic expansion to the need of an outlet for surplus capital generated in advanced capitalist states.[1] Underconsumption, or the presumed inability of mature capitalist economies to generate enough profitable opportunities to absorb the investment funds created by private corporations, leads to crises. Conspicuous consumption, military expenditures, and foreign investment are ways in which advanced capitalist nations try to deal with the problem of surplus capital.[2]

The models of foreign investment emphasizing surplus capital or declining profit opportunities in mature industrial economies have received scant empirical support.

Historically, developed countries have traded and invested first and most heavily with each other. Foreign investment has not flowed from

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[1] J. A. Hobson, *Imperialism* (Ann Arbor 1965); V. I. Lenin, *Imperialism, The Highest Stage of Capitalism* (New York 1930); Paul M. Sweezy, *The Theory of Capitalist Development* (London 1942); Paul A. Baran, *The Political Economy of Growth* (New York 1957); Paul A. Baran and Paul M. Sweezy, *Monopoly Capital* (New York 1966).

[2] In their last work, *Monopoly Capital*, Baran and Sweezy suggested that none of these methods could absorb surplus capital very effectively. On foreign investment, see *ibid.*, 104-11.

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regions of capital abundance to regions of capital scarcity as vigorously as it has flowed from one region of relative capital abundance to other regions of relative capital abundance. And when foreign investment does take place in countries of capital scarcity, the bulk of the financing is frequently raised locally.

Relative profitability of foreign operations as between developed and underdeveloped economies is almost impossible to evaluate adequately on the basis of available data and conventional concepts—for reasons discussed within this paper—but there are strong indications that the most developed economies offer more and higher profit opportunities for investment to their own and foreign investors than do less developed countries.

The more developed the country, the more attractive it appears to be for investors. Developed economies have both the capital and the markets. Surplus capital is not pushed out of advanced economies because they have difficulty absorbing it.

Dependence on scarce natural resources from the underdeveloped world would seem to be the strongest argument why the most important corporations and their governments might "need" to maintain the option of direct foreign economic penetration. Yet, for the United States, domestic substitutes, synthetics, new techniques of low-grade extraction, and new methods of recovery and recycling suggest that the economy has a variety of alternatives other than the traditional pattern of foreign direct investment for supplying internal needs at acceptably higher prices. And, even in the unlikely event that all American natural resource companies in the Third World were nationalized and all exporting countries could maintain producers' cartels, these countries would still have to sell the bulk of their primary products to the United States and other developed capitalist countries at (perhaps)[3] higher prices. Thus, it can be argued that direct economic penetration to secure natural resources is not a compelling need for the functioning of corporate capitalism in the United States.

Considerations about the relative independence and self-sufficiency of the large capitalist economies (especially the United States) have led some analysts—Deutsch, Heilbroner, Waltz, Tucker, Miller, and others—to conclude that direct foreign economic expansion (above all, the expansion of non-natural resource companies into the underdeveloped world) cannot or should not be considered to be a vital national in-

[3] It is by no means certain that the prices of all primary products would rise with the nationalization of operations at the production stage. Cf. Moran, "New Deal or Raw Deal in Raw Materials," *Foreign Policy*, No. 5 (Winter 1971-72).

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terest:[4] If feelings of economic necessity ever did dictate the Open Door policy in Asia or the Big Stick policy in Latin America, those feelings were "mistaken"; foreign investment has always been and will continue to be a "convenience" more than a "necessity," and foreign economic expansion is not an "institutional need" of U.S. corporate capitalism.

Magdoff and others bypass the question of convenience or necessity by simply pointing to the sheer size of direct foreign investment—which, for the United States, represents production equivalent to the third- or fourth-largest economy in the world.[5] This accumulated stake is huge and extremely important—from both a balance-sheet and a cash-flow perspective—to those large international corporations who are likely to have the most influence on governmental policy. Foreign investments are large. They are profitable. They will be defended and expanded because they are there.

In this paper I will argue that an emphasis on the stake that multinational corporations have in direct foreign expansion is more plausible than the models of surplus capital. But revelations about the accumulated stake in foreign investments do not explain the dynamics of how such a stake gets built up, or why it will continue to be built up in underdeveloped as well as developed countries. Indeed, any interpretation of an *accumulated* stake far understates the interest that the most dynamic domestic corporations have in keeping the possibility of foreign expansion open to them in *their future*. Recent studies of the growth of American manufacturing firms confirm that the largest, the most diversified, the fastest growing, and the most technologically advanced corporations have considered the option to invest in foreign countries to be a need vital to their corporate strategies in the past, that they continue to do so today, and will fight to preserve the option in the future.

[4] Karl W. Deutsch and Alexander Eckstein, "National Industrialization and the Declining Share of the International Economic Sector, 1890–1959," *World Politics*, XIII (January 1961); Robert I. Heilbroner, "Counter-revolutionary America," in Irving Howe, ed., *A Dissenter's Guide to Foreign Policy* (Garden City, N. Y. 1968); Kenneth N. Waltz, "The Myth of National Interdependence," in Charles P. Kindleberger, ed., *The International Corporation* (Cambridge, Mass. 1970); Robert Tucker, *The Radical Left and American Foreign Policy* (Baltimore 1970); S. M. Miller, Roy Bennett, and Cyril Alapatt, "Does the U.S. Economy Require Imperialism?" *Social Policy*, 1 (September-October 1970).

[5] Harry Magdoff, *The Age of Imperialism* (New York 1969), and "The Logic of Imperialism," *Social Policy*, 1 (September-October 1970); Frank Akerman, "Magdoff on Imperialism," *Public Policy*, XIX (Summer 1971).

Since the end of the 1960's, total production of foreign firms controlled by U.S. corporations has been close to the total production of the Japanese economy, making them third or fourth behind the U.S. and the U.S.S.R.

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Concentrating only on U.S. manufacturing companies, I will show why the pressures to invest abroad are much stronger and the costs of giving up the foreign option are much higher in corporate decision-making than conventionally understood by either neoclassical or neo-Marxist analysts.

The study of the growth of the firm in the United States suggests that corporate managers have felt, and will continue to feel, that pressures for foreign economic expansion are much more a compelling need or even an institutional necessity than merely a profitable convenience. And in the future such needs or necessities may dictate corporate strategies for stronger penetration into the Third World than that which has already taken place in the developed countries.

I

The classical theory of the firm and the classical theory of foreign trade and investment assumed free availability of information, stable production functions, and no significant returns to scale. Foreign investment, like domestic investment, is made on the basis of marginal return on capital.

Recent models of the growth of U.S. firms in manufacturing industries, however, have assumed that technology and information are tightly controlled, that production processes are characterized by large economies of scale, and that products undergo predictable changes in production and marketing over time.[6] Foreign investment is viewed

[6] The most important body of this literature deals with the theory of the product cycle: Raymond Vernon, "International Investment and International Trade in the Product Cycle," *Quarterly Journal of Economics*, LXXX (May 1966), and *Sovereignty at Bay* (New York 1971); Louis T. Wells, Jr., "Test of a Product Cycle Model of International Trade," *Quarterly Journal of Economics*, LXXXIII (February 1969), and *International Trade: The Product Cycle Approach* (Basic Books, forthcoming).

Related to this approach to the growth of the firm are Edith T. Penrose, *The Theory of the Growth of the Firm* (Oxford 1966); Raymond Vernon, "Organization as a Scale Factor in the Growth of Firms," in J. W. Markham and G. F. Papanek, eds., *Industrial Organization & Economic Development* (New York 1970).

On oligopoly behavior and the theory of foreign investment, see Stephen H. Hymer, "The International Operations of National Firms: A Study of Direct Foreign Investment," unpub. Ph.D. thesis (MIT 1960); Stephen Hymer and Robert Rowthorn, "Multinational Corporations and International Oligopoly: The Non-American Challenge," in Kindleberger (fn. 4); Richard Caves, "International Corporations: The Industrial Economics of Foreign Investment," *Economica*, New Series, XXXVIII, No. 149.

This paper does not attempt to deal with the dynamics of foreign investment and oligopoly behavior in natural resource industries. For some approaches to this subject, see Moran, *El Cobre es Chileno—The Multinational Corporation and the Politics of Development: The Case of Copper in Chile* (Harvard Center for International Affairs 1972); Vernon, *Sovereignty at Bay* (see above); John E. Tilton, "The Choice of Trad-

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as the strategy of corporations to expand or defend barriers to entry which are repeatedly challenged and eroded.

According to these later models of the growth of the firm, corporations begin with control over some combination of skills (technology, management, differential access to capital or other factors of production) that gives them a competitive edge in (stimulating and) responding to demand. From this control comes their power to exact an economic rent from customers. The development of new products or a new line of products is usually characterized by tightly held technology, short production runs, and sales to a close-by, ill-defined market. As aggregate demand in that market expands, or as the geographical servicing of demand spreads, the technology becomes more standardized and the production runs become longer and more stable. This lowers average cost. The uncertainties of marketing are lessened as price- and income-elasticities of demand are more thoroughly explored. The standardized technology is more easily imitable. Almost inevitably, the result is increasing competition in the initial market as more firms enter into production. The originator of a new product or a new production process loses a portion of his ability to exact economic rents to rivals. If barriers to entry are sufficiently high, the erosion of oligopoly control proceeds relatively slowly. But even in those cases where stable oligopoly shares of the market can be maintained for some period of time (perhaps decades), the growth of profitability for the individual firm becomes a function of growth of aggregate demand in the market and slows considerably from the initial expansion of the product. Studies of the product cycle show that firms thus face repeated "closing[s] of the continental frontier" as significant as William A. Williams supposes the 1890's were for the expansion of the economy of the United States.[7]

During the period of product development and technological standardization in response to the market opportunities nearby, some foreign orders come from countries with similar demand structures. These orders create the first opportunity for firms to extend the exploitation

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ing Partners: An Analysis of International Trade in Aluminum, Bauxite, Copper, Lead, Manganese, Tin, and Zinc," *Yale Economic Essays*, VI (Fall 1966).

There is also no attempt to look at the behavior of multinational manufacturing enterprises that are not based in the United States. Preliminary investigations suggest that there may have been systematic differences in their behavior related to the amount of instability and competition in the home market—although their strategies may be converging with those of U.S. enterprises.

[7] William A. Williams, *The Tragedy of American Diplomacy* (New York 1962).

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of barriers to entry in the face of increasing competition and their inability to maintain dynamic growth at home. Exports become an increasingly important part of the firms' production and marketing strategies.

After a short time, however, the same process occurs in the foreign market as occurred in the original domestic market. The standardization of technology, the wider possibilities of technological diffusion and technological imitation, the clearer knowledge of demand and cost characteristics all serve to lower barriers to entry into the market. Local competitors begin to challenge the position of the foreign exporters. They do not have the transportation costs of the foreign exporters; they may be able to combine local factors of production as efficiently or more efficiently than foreign exporters; and they can seek governmental protection.

This again challenges the ability of the original producers to maintain the potential to exploit their oligopolistic edge. At that point, they must make the decision of whether to give up the overseas market and settle back down to a shrinking share of the market in the home country, or take the big step of investing within the foreign country to defend their positions as exactors of oligopoly rents.

Foreign investment defends a market already built up through exports. It allows the firm to average overhead and R & D costs over a larger production run, and to extend the payoff the parent company receives on initial costs sunk into technology without having to make any additional investment of this type in the foreign country.[8] It also allows the firm to maximize returns on an increasingly experienced (but costly) multinational management staff: There are increasing returns to scale for management organization which can only be realized by multinational expansion.[9]

Recent studies of U.S. corporate expansion, aimed at testing the model of the product cycle and the growth of the firm, have found overwhelming evidence in support of the model.[10] American manufacturing enterprises typically began by producing for domestic consumption, and then expanded abroad through exports to countries that

[8] Cf. Harry Johnson, "The Efficiency and Welfare Implications of the International Corporation," in Kindleberger (fn. 4); Raymond Vernon, "U.S. Controls on Foreign Direct Investments—a Reevaluation," Financial Executives Research Foundation (April 1969).

[9] Penrose (fn. 6); Vernon, "Organization as a Scale Factor in the Growth of Firms" (fn. 6).

[10] Mira Wilkins, *The Emergence of Multinational Enterprise* (Cambridge, Mass. 1970); Vernon, *Sovereignty at Bay* (fn. 6); James W. Vaupel and Joan P. Curhan, *The Making of Multinational Enterprise* (Boston 1969).

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had similar demand characteristics. As production processes became more standardized in the United States, the most frequent sequence for foreign expansion from the late nineteenth into the twentieth century consisted of a response to sales opportunities in Canada, then Great Britain, Germany, and France.

Subsequently, foreign competition imitated or duplicated the technology of products first introduced in the United States. National companies threatened to combine local factors of production in efficient ways while avoiding transportation costs. More importantly, they threatened, through governmental protection, to exclude exports. U.S. exporters were thereby forced to make an investment in foreign production in order to maintain their market position. Wilkins and Vernon find that frequently, corporations discovered that local production costs were lower than those at home. However, they did not move into local production in the foreign countries until their exports were threatened by tariffs.[11] The flow of American direct private investment in manufacturing again typically proceeded in the Canada-Great Britain-Germany-France pattern—with capital flowing toward areas of relative capital abundance in response to a challenge to the possibility of exploiting the original barriers to entry.

Mira Wilkins cites the example of International Harvester which, like companies in the automobile industry, began exporting early in the twentieth century.[12] By 1911, in response to "tariffs and the possibility of competition developing behind the tariff walls," Harvester had followed up its exports by building five foreign plants—in Canada, Sweden, France, Germany, and Russia. Foreign business by that time constituted 40 per cent of the company's total revenues and a greater share of net earnings.

Similar histories have been traced for General Electric, Kodak, Ford, IBM, Singer, Westinghouse, and other major companies in reapers, typewriters, cash registers, pumps, telephone apparatus, film, drugs, electrical equipment, elevators, explosives, and so on.[13]

The same cycle has been evident in the pattern of economic relations with countries that are less familiar to the United States than Canada and Western Europe. Products created in response to demand in the U.S. market were exported to Latin America and the Far East (but largely excluded from Africa and India by European colonial pressure). The struggle over the Open Door policy in China was waged

[11] Cf. Wilkins (fn. 10), esp. chaps. IV, V, and X; Vernon (fn. 6), chap. 3 and tables 3–5.

[12] Wilkins (fn. 10), 102-103.

[13] *Ibid.*, 65, 68, 212-13.

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Growth of U.S. Foreign Investment in Manufacturing

NUMBER OF FOREIGN MANUFACTURING SUBSIDIARIES OF 187 U.S.-CONTROLLED MULTINATIONAL ENTERPRISES

	1929	*1939*	*1950*	*1959*	*1967*
Total	467	715	988	1891	3646
Europe (incl. U.K.)	226	335	363	677	1438
Canada	137	169	225	330	443
All other areas	104	211	400	884	1765
Ratio: All other areas to Total	*22.3*	*29.5*	*40.5*	*46.7*	*48.4*

NUMBER OF PRODUCT LINES INTRODUCED BY FOREIGN MANUFACTURING SUBSIDIARIES OF 187 U.S.-CONTROLLED MULTINATIONAL ENTERPRISES

	1920–29	*1930–39*	*1940–50*	*1951–59*	*1960–67*
Total	365	438	473	1345	2921
Canada, Europe, U.K.	276	271	209	666	1581
All other areas	89	167	264	679	1340
Ratio: All other areas to Total	*24.4*	*38.1*	*55.8*	*50.5*	*45.9*

BOOK VALUE OF DIRECT FOREIGN INVESTMENT OF U.S. ENTERPRISES IN MANUFACTURING SUBSIDIARIES (IN MILLIONS OF DOLLARS)

	1929	*1940*	*1950*	*1957*	*1969*
Total	$1,813	$1,926	$3,831	$8,009	$29,450
Europe (incl. U.K.)	629	639	932	2,195	12,225
Canada	819	943	1,897	3,924	9,389
All other areas	364	343	1,003	1,890	7,836
Ratio: All other areas to Total	*20.1*	*17.8*	*26.2*	*23.6*	*26.6*

SOURCES: Vaupel and Curhan (fn. 10), chap. 3; Vernon (fn. 6), tables 3-3 and 3-4; U.S. Department of Commerce, *U.S. Business Investments in Foreign Countries* (Washington, D.C. 1960), and *Survey of Current Business*, various issues.

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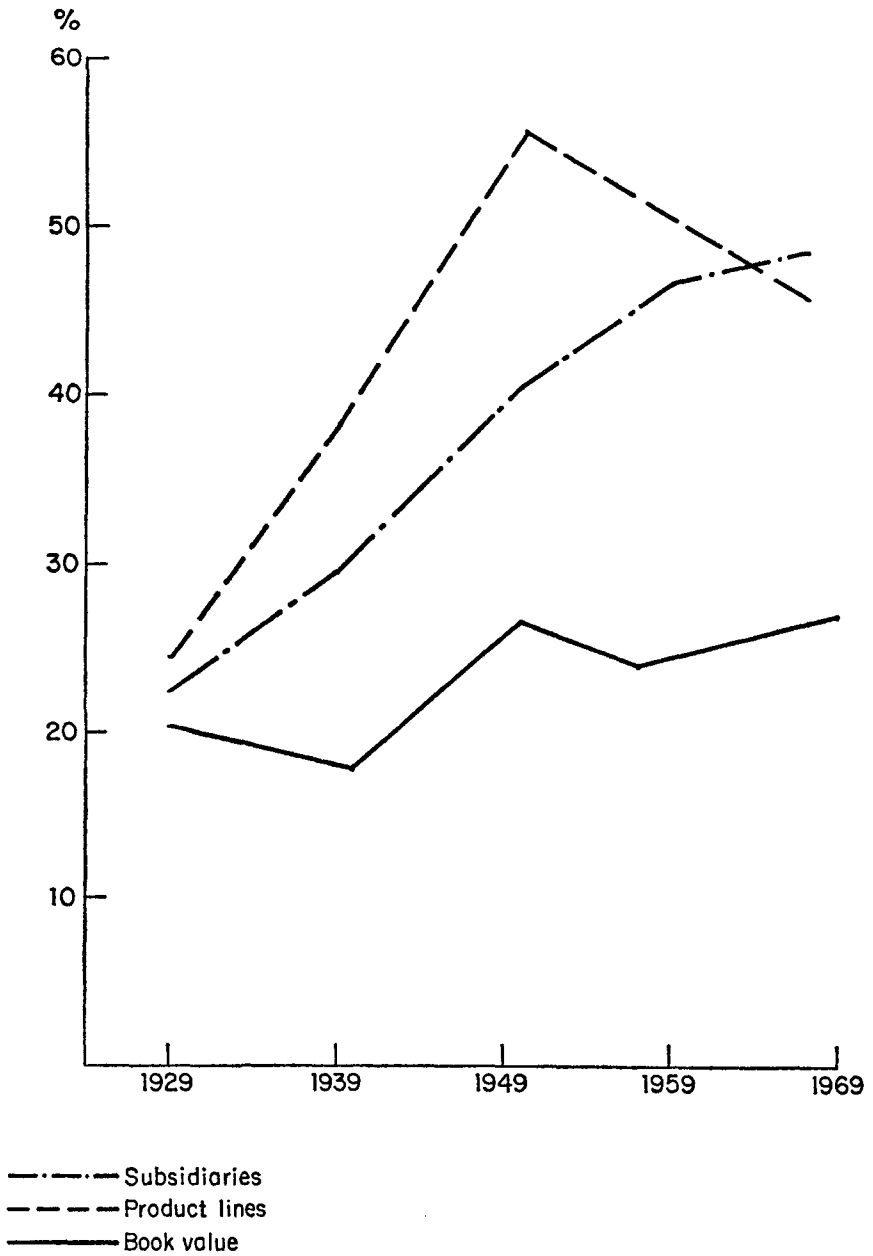
RATIO: U.S. FOREIGN INVESTMENT IN MANUFACTURING OUTSIDE CANADA, EUROPE, AND U.K. TO TOTAL U.S. FOREIGN INVESTMENT IN MANUFACTURING



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precisely to prevent that market from becoming the exclusive sphere of influence of the European powers in the pattern of India and Africa.[14] With the achievement of the Open Door policy, China's demand was served by import, like Latin America's, rather than through direct investment—despite potentially lower labor costs if production had been carried out locally.

Only in Japan, where the supersession of unequal treaties in 1899 gave that country the chance to introduce tariff protection, did American businessmen face the clear choice of either investing in local manufacturing or losing their export market. Professor Wilkins points out that it was in Japan, rather than in China, that companies such as Westinghouse, American Tobacco, and General Electric had their "key investments."[15]

Direct private investment by the United States in manufacturing subsidiaries located outside Canada, Europe, and the United Kingdom did not begin to grow with any dynamism until the Depression threatened to cut off exports. According to the Harvard Business School study of 187 U.S. multinational corporations, the number of foreign manufacturing subsidiaries and the number of product lines introduced in new areas outside Canada, Britain, and continental Europe doubled between 1929 and 1939, in contrast to the much slower growth of manufacturing activity in the old familiar countries.

During the process of import-substituting industrialization after the second World War, this process of direct foreign investment by American firms accelerated in new areas. U.S. manufacturing assets located outside Canada, Europe, and Britain reached a high of 26 per cent of all U.S. foreign manufacturing assets in 1950, and managed to maintain that level even during the celebrated American "penetration" of Europe in the 1960's. During the same period the ratio of U.S. manufacturing subsidiaries located in new areas to the total number of foreign manufacturing subsidiaries rose from 30 per cent to 48 per cent.

Again, American companies followed exports with investments in the drive to maintain their oligopoly positions and preserve the ability to exact economic rents from barriers to entry that were repeatedly being challenged. Clearly, not all industries invested abroad. Some were content to sit at home and collect the proceeds from a declining share of a slowly growing market. But the largest, most rapidly growing, most technologically advanced industries—the ones with the great-

[14] In addition to William A. Williams's well-known thesis (fn. 7), see supporting data in Wilkins (fn. 10), chap. IV.

[15] *Ibid.*, 75, 205.

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est competitive edge to exploit and the greatest ability to absorb the informational and managerial costs of multinational expansion—did feel compelled to defend themselves and grow in the only way they could: through direct foreign investment.[16]

II

The study of corporate growth in the United States shows that economic expansion abroad results from the struggle to expand and defend the capacity to exact oligopoly rents.

This model has received support not only from historical analyses of extraterritorial investment, but also from contemporary studies of product cycles and international trade.

In a pioneering study of the petrochemical industry, Robert Stobaugh has found that prices for bulk organic chemicals go through a clearly defined cycle that begins at a high point when new products are first introduced and then declines as production becomes more standardized and domestic competition increases.[17] Innovators find that after a certain time lag—a time lag that has become shorter with each decade of this century—they are faced with a declining share of the domestic market, slower aggregate growth, and limited maneuverability within the oligopoly. The servicing of foreign demand begins with exports. After a time lag narrowing from twenty-seven to seven years, competition will spring up in the foreign markets—competition that includes firms who have purchased (or licensed) the standardized technology from the original country in which the product was developed. The result has been massive foreign investment on the part of the petrochemical industry to defend its position in foreign markets and pursue its increasingly threatened opportunity to exact an economic rent from the product. Of 105 direct foreign investment decisions in Stobaugh's study, not one direct foreign investment was made *before* a foreign competitor had commenced production. But by the mid-

[16] The most comprehensive discussion of the key characteristics of foreign investors in the Harvard Business School sample of 187, in the *Fortune* 500, and in the U.S. Commerce Department statistics can be found in Vernon (fn. 6), chap. 1, and in Vaupel and Curhan (fn. 10), chap. 1.

Studies by Stobaugh and Hirsch (see fns. 17 and 18) of the petrochemical and electronics industries go further in relating foreign investment to rate of growth.

The argument is also made that U.S. foreign investors are the most sophisticated in managerial organization. Cf. John M. Stopford, "Growth and Organization Change in the Multinational Firm," unpub. D.B.A. thesis (Harvard Business School 1968); Lawrence E. Fouraker and John M. Stopford, "Organizational Structure and Multinational Strategy," *Administrative Science Quarterly*, XIII (June 1968).

[17] Robert B. Stobaugh, Jr., "The Product Life Cycle, U.S. Exports, and International Investment," unpub. D.B.A. thesis (Harvard Business School 1968).

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1960's the petrochemical industry was second in total value of United States foreign investments and first among U.S. manufacturing groups in net capital outflows to affiliates abroad.

In the electronics industry—from radios through computers to lasers—Seev Hirsch has found the same product and investment cycle.[18] U.S. exports have been highest over time in whatever are the newer, higher growth sectors of the industry. But as the product groups assume more mature characteristics—as production processes become more stable, as specifications become more standardized, as the importance of skill content declines—foreign manufacturers duplicate or license the technology, adapt it to their environment, and challenge the position of the original producer. The only option for the marginal producer is to expand abroad with his more mature, standardized lines to meet the competition.

G. C. Hufbauer, in examining the production of synthetic materials, argues in a similar vein: leading countries have an initial competitive advantage which they lose, after a time lag, to national producers who have bridged the technological gap.[19] For the erstwhile leader who thinks he still has an advantage to exploit against local producers who enjoy tariff protection or lower costs, the answer must be direct foreign investment within the others' national market.

In a study of companies from nine industries that account for over 90 per cent of U.S. direct foreign investment in manufacturing—food products (Standard Industrial Classification 20), paper and allied products (SIC 28), chemicals and allied products (SIC 28), petroleum (SIC 29), rubber products (SIC 30), primary and fabricated metals (SIC 33 and 34), non-electrical machinery (SIC 35), electrical machinery (SIC 36), and transportation equipment (SIC 37)—a team of investigators at the Harvard Business School has shown that exports preceded direct foreign investment, and that direct foreign investment took place as a defensive reaction when production could no longer be expanded (for domestic or foreign markets) at home.[20]

This is the dynamic that accounts for most foreign investment in manufacturing by American firms—the pursuit of opportunities to

[18] Seev Hirsch, *Location of Industry and International Competitiveness* (Oxford 1967), and "The United States Electronics Industry in International Trade," in Wells (fn. 6).

[19] G. C. Hufbauer, *Synthetic Materials and the Theory of International Trade* (London 1965).

[20] Robert Stobaugh, Jose de la Torre, Robert Hayes, James Tucker, Richard Moxon, Rita Rodriguez, and others, *U.S. Multinational Enterprises and the U.S. Economy*, Harvard Business School report prepared for the U.S. Department of Commerce (January 1972).

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exploit some barrier to entry in the face of repeated challenges to those opportunities. The result has been the spread of U.S. corporate investment abroad, in both developed and underdeveloped countries, without direct regard for regions of relative capital scarcity or significant concern about where capital is actually raised to finance the foreign expansion.

III

Studies of the product cycle and the growth of the firm do not deny that corporations invest abroad as part of their search for profits.[21] But there are important empirical and conceptual complications in trying to evaluate how profitable foreign operations are.

In the first place, corporations seldom publish disaggregated data that permit identification of returns from specific product lines in specific countries which could be compared to the same product lines in the home country. Such disclosure would allegedly reveal too much information to competitors. Occasionally, the U.S. Department of Commerce publishes statistics by regions and activity.

RETURN ON U.S. FOREIGN INVESTMENT IN MANUFACTURING IN 1965[22]
(MILLIONS OF DOLLARS)

	Earnings	*Assets (book value)*	*Return (%)*
Far East (incl. Japan)	$ 101	$ 893	11.3
Europe (incl. U.K.)	855	7,570	11.2
Latin America	269	2,741	9.9
Canada	606	6,855	8.8
Africa (excl. South Africa)	4	55	7.2

However, even when available, such numbers are of limited use in evaluating the return generated by various foreign investments. A second difficulty springs from the fact that international corporations

[21] The argument of this paper can be translated directly into profit-maximizing terms if one admits discontinuous opportunity costs to the firm and if, to the calculation of marginal return on investment, one adds a measure of the risk of loss to the enterprise if the foreign investment is not made.

[22] U.S. Department of Commerce, *Survey of Current Business*, Foreign Investments 1965–66 (September 1966).

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inevitably exercise some discretion in deciding where they will show their profits. This discretion extends from comparatively simple decisions about how to allocate common overhead expenses between parent and subsidiary, or how to share common R & D costs, to more perplexing decisions created by a substantial degree of vertical integration across national boundaries. The company that sells to or buys from its own subsidiaries must establish some transfer price for the internal transaction when making out its tax form for the host government. If there is no open arms-length market to indicate what the price should be, then the point where profits are shown to occur is a matter of pure discretion depending on the corporation's internal strategy. Two major goals of corporate strategy are to minimize its global tax burden and to protect itself from competition. Therefore, companies will tend to show low profits where tax rates are high, or at stages in the vertical chain where there are insignificant barriers to entry. Whether these considerations will mean that low profits are generally being declared in underdeveloped countries as opposed to developed countries, or in foreign countries as opposed to the home country, cannot be predicted *a priori*.[23]

The third problem in evaluating how attractive or enticing a foreign investment will appear to an individual firm can be illustrated by looking at the real alternatives open to that firm. Most analysts of corporate behavior reject the assumption of classical economics that information and accumulated experience are free commodities. A firm begins, as I have argued in this paper, with control over some technique, managerial ability, and/or corporate knowledge which it seeks to exploit in domestic markets, through exports, and in foreign production. This control over information, experience, or technology creates what Richard Caves calls "sector-specific capital" or "low inter-industry mobility of capital"—indicating that the firm can use its resources only with diminishing returns as it moves away from the type of behavior with which it is familiar.[24] Thus, although an economist might find

[23] All other things being equal, there should be a presumption that, when they get the chance, U.S. firms will declare more of their profits to be on foreign operations than at home, especially in the case of foreign investment in underdeveloped countries. The deferral feature of the U.S. foreign tax credit in effect provides foreign subsidiaries of American businesses with an interest-free loan amounting to the U.S. tax liability of unremitted profits. Also, in less developed countries, the absence of a "grossing-up" requirement means that taxes paid to a host government relieve a company of much more of its global tax liability than taxes paid to the U.S. Government.

[24] Caves (fn. 6). Caves's finding that direct foreign investment does *not* tend to equalize rates of return in any country *between* industry sectors is consistent with and supportive of the model of corporate growth advanced here.

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that there is some "average" marginal profitability of 15 per cent (after taxes) on operations within the United States, many individual American firms may face the choice of investing abroad in their familiar line of operations with a marginal return of 12 per cent, or investing at home with a marginal return of 4 per cent or less. In fact, if an expansion of output in the firm's home market will bring retaliation from competitors, the marginal return from increasing capacity at home may be negative. Thus, one can predict that foreign investment will exercise a great pull on the funds of many firms, even though the typical marginal profitability of such an investment might be substantially lower than some average marginal profitability of "an investment" in the home country.

Finally, the evaluation of the profitability or the importance of making a foreign investment must take into consideration how corporations react to the actual or potential actions of their fellow oligopoly members. Those industries that have some barrier to entry to exploit at home are precisely the ones who are most likely to move abroad in close follow-the-leader patterns. If one company invests abroad to protect its export market, other members in the home market must worry not only about being shut off from exports by a tariff wall, but also about the first investor getting a significant jump on them in the foreign market—in terms of national good will, product identification, familiarity with local officials, and so forth. Thus, to a calculation of profit rate on incremental investment overseas, they must add—once the first firm has made its move—an even higher probability of losing their export market.

The calculation of potential loss which must be added to the calculation of potential profit to indicate the appeal or the need of a foreign investment will become much more important, as we shall see, when we examine the trend toward re-exporting back into the home market. The firm that does not follow its competitors into other countries may face not only the loss of an export market but a share of its domestic market as well.

In conclusion, it is difficult to get data giving the return on foreign investment, and such data are of only marginal use when obtained. The only adequate way to estimate the profitability, the appeal, or the

How firms have evaluated the choice between diversifying at home and expanding abroad is not clearly understood. It appears that considerations of accounting rather than of economics have been responsible for many of the conglomerate mergers in the United States. And, in any case, domestic diversification has been seen as an aid to foreign expansion rather than as an alternative in the strategy of some of the largest conglomerates, such as ITT or Litton.

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"need" of foreign investment is to ask what would happen to the firm if the investment were not made.

Potential loss of export markets, low opportunity cost for capital in the home market, the threat of losing a large part of the global ability to exact oligopoly rent—all indicate high values to be put on foreign investment, and strong reactions against the risk of losing the option of foreign investment in the future. For large American firms operating in a setting of unstable imperfect competition, foreign expansion has appeared to corporate decision-makers—accurately—more as a compelling institutional need than a profitable convenience.

With the trend running toward foreign investment to produce goods (or components) for export back into the home market, this compelling need to go abroad has become an "institutional necessity."

IV

The model of the product cycle and the evidence of United States expansion in manufacturing industries was begun by considering foreign production only as a means of supplying a foreign domestic market. But U.S. direct foreign investment has increasingly aimed not merely at supplying the local market, but at exporting to third countries, most notably back into the United States. Hirsch has documented this for electrical and electronic products;[25] Wells for textiles and standard computer components;[26] Vernon for transportation equipment, office machines, telecommunications equipment, and food products.[27] In Latin America, for example, U.S.-controlled companies accounted for 12 per cent of the exports of manufacturers in 1957, but 41 per cent in 1966. In absolute terms, the exports of manufacturers from Latin America grew by $904 million in the same period, of which $585 million were exports of subsidiaries of U.S. firms.[28]

In 1968, U.S. foreign manufacturing subsidiaries produced almost $120 billion worth of goods, of which 22 per cent were then exported out of the country of production; U.S. foreign subsidiaries have become an exporter as large as Germany and twice the size of Japan.[29] Eight per cent of the production of U.S. foreign manufacturing subsidiaries

[25] Hirsch (fn. 18).
[26] Wells, *Q.J.E.* (fn. 6).
[27] *Sovereignty at Bay* (fn. 6), chap. 3.
[28] Council for Latin America, *The Effects of United States and Other Foreign Investment in Latin America* (New York 1969).
[29] The figures on exports of U.S. foreign manufacturing subsidiaries for 1968 are cited in Stobaugh (fn. 20), 28. Comparisons with export and import figures for the countries in the text are taken from *International Financial Statistics* of the International Monetary Fund and the *Statistical Abstract of the United States.*

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was imported back into the United States, accounting for about one-fourth of all U.S. imports, and making the subsidiaries a trading partner almost equal in size to all importers from Europe and twice the size of all importers from Japan. Even if the huge imports from subsidiaries of United States automakers in Canada are ignored, imports into the United States still amount to 5 per cent of all U.S. foreign production, or almost one billion dollars more than the value of all imports from Japan.

Again, the kinds of firms that are beginning to scan the globe for possibilities of rationalizing production and trade are generally the kinds of firms that move in close follow-the-leader patterns in response to each other's behavior. The common fear is that some one oligopoly member will come to dominate a low-cost source of production and leave them all at a serious disadvantage. When one invests abroad, all feel compelled to follow.

If costs in the new area prove too high for export back to the home market, or if the new local market does not grow as rapidly as expected, the market shares of all the oligopoly members will be maintained with the loss of a relatively small investment. This small investment is an *option* on a potentially very great source of profit and an *insurance policy* against a potentially very great risk of loss. The producer who is left behind and finds not only his export market but even his home market swamped with low-cost imports produced overseas by his domestic rivals sees the specter of his own death. Leading or following his competitors abroad becomes an "institutional necessity."

V

The study of the product cycle and the growth of the firm explains why the largest, the fastest growing, and the most technologically advanced American manufacturing companies have been under intense pressures to expand into other countries, both developed and underdeveloped. This intensity is far greater than is revealed by conventional figures on relative profitability; it is an intensity that has indeed been intrinsic to the dynamics of unstable imperfect competition in the United States.

This does not mean that foreign economic expansion has been the most compelling national interest at every point in time, or that economic considerations have always dominated military or political or religious strategies. But it does suggest the working hypothesis that, during the last hundred years, powerful corporate decision-makers, re-

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sponding with good judgment to opportunity and to risk, have brought what pressures they could to keep the option of foreign economic expansion open to them in their companies' futures. The dynamics of foreign penetration by American business did not follow a lackadaisical course of convenience or adventure in the pursuit of profits. Ours was not an accidental empire.

It is of course possible to imagine a future far different from a steady unimpeded corporate multinationalization of the globe. Regional trading and investing areas could develop. Protectionist groups seeking security could prevail over competitive groups wanting to use their talents in technology and organization for expansion—for a time.[30] Large sections of the underdeveloped world could successfully shut themselves off from foreign exports or foreign investments—for a time. In fact, broad protectionist moves in the United States or broad exclusionary moves in the underdeveloped world that would serve to render unstable imperfect competition more stable could probably be quite easily tolerated by U.S. multinational corporations in the short run, provided domestic competition could be restrained simultaneously.

But there *is* something fundamental to American corporate capitalism—the capitalism of tightly held technology, uncertain information, large economies of scale, and unstable imperfect competition, rather than the capitalism of perfect competition and portfolio investment—that creates strong pressures for foreign investment. As long as American corporations exercise their virtues of inventiveness and aggressiveness, their government will feel intense, even frantic pressures to create and preserve an international system that facilitates foreign economic expansion.

[30] For those who favor a behavioral model of the firm, it can be argued that managers of the fastest growing divisions within a large diversified corporation can ally themselves with managers of research and development divisions and with those production managers who want access to cheap foreign inputs against the managers of "mature" divisions who might press for protection.

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ECONOMIC COERCION AS AN INSTRUMENT OF FOREIGN POLICY:

U.S. Economic Measures Against Cuba and the Dominican Republic

By ANNA P. SCHREIBER*

THE application of economic sanctions against Rhodesia and the results of that effort raise the question of the effectiveness of economic coercion as an instrument of foreign policy. A review of U.S. economic coercion against Cuba, in effect since June 1960, and against the Dominican Republic during the period 1960–1962 may be timely and instructive. By exploring the steps leading to the application of U.S. economic coercion, its objectives, and its concrete impact on the target states it may be possible to develop some useful generalizations about the role of economic weapons as tools of foreign policy.

I. U.S. Economic Coercion Against Cuba

THE INSTRUMENTS OF THE POLICY

In July 1960 the Eisenhower administration cancelled most of the remaining Cuban sugar quota for 1960, and almost no Cuban sugar has entered the United States since that decision. Sugar is Cuba's principal crop and prime source of foreign exchange. Prior to 1960, Cuban sugar sales to the United States averaged 3,000,000 tons annually, or more than half of the Cuban average annual harvest.

On October 19, 1960, the Eisenhower administration took a second step to implement the policy of economic coercion by banning all U.S. exports to Cuba except medicines, medical supplies, and food products receiving no governmental subsidy. A series of decisions in February, March, and May 1962 made it illegal to import any product of Cuban or partial Cuban origin from any part of the world. This ban extends to products brought into the country by returning American tourists.

Since enforcement of U.S. economic coercion required the coopera-

* This study was originally undertaken as part of a research project conducted by the Royal Institute of International Affairs (Chatham House), London. The author wishes to thank J.E.S. Fawcett and members of the Sanctions Study Group at Chatham House for their valuable assistance.

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tion of other countries, the United States applied a variety of other measures aimed to impede Cuban trade and to persuade other governments to decrease and discourage transactions with Cuba. Foreign exporters who bought U.S. products and resold them to Cuba stood in danger of having their U.S. export privileges revoked. Since 1962, vessels under charter to Sino-Soviet bloc states trading with Cuba, as well as Cuban-owned and Cuban-chartered ships, have been denied berths in U.S. ports. In addition, for the past ten years no ships registered under the flag of the United States have been permitted to carry cargo to Cuba, or to be sold, transferred, or chartered to others for this purpose. A law passed in October 1962 subjected states that permitted ships under their flag to carry arms, oil, transport equipment, strategic materials, or economic aid products to Cuba to possible loss of American foreign aid.[1] Since February 1963, the United States has not permitted government-owned or government-financed cargoes to be transported by ships carrying cargoes to Cuba; each month a blacklist of affected ships is published. With the exception of a refugee airlift, the United States has broken off normal air and sea links with Cuba during most of the last ten years. It also attempted to persuade other states to follow suit. This measure helps to impede Cuban international trade, but primarily it is part of a larger U.S. policy aiming to isolate Castro from all international contacts.[2]

The United States has also denied banking facilities to the Castro government. In July 1963 most dollar transactions by the Cuban Government were banned in banks under U.S. jurisdiction. In addition, licenses were required if persons under U.S. jurisdiction made property transactions in which Cuba had an interest. A total of $33,000,000 in Cuban assets in U.S. banks were frozen, but this did not affect the assets of Cuban refugees. Cuban exiles are permitted to send dollars to their families.[3]

The United States tried to win the support and cooperation of Latin American states for its policy of economic coercion, and it used the Organization of American States (O.A.S.) for this purpose. The Eisenhower administration managed to persuade a meeting of O.A.S. Foreign Ministers to condemn "energetically the intervention or threat of

[1] U.S. Department of State (Committee on Foreign Relations of the U.S. Senate), *Events in USA–Cuban Relations: A Chronology 1957–1963*. (Washington, D.C. 1963).

[2] Between 1966 and August 1971, the U.S. arranged with Cuba to fly 3600 refugees per month to Miami on twice-daily, five-day-a-week flights. On August 31, 1971, Cuba announced that these regularly scheduled flights would be terminated. *International Herald Tribune*, June 26 and September 10, 1971.

[3] *Keesing's Contemporary Archives*, June 20-27, 1964, p. 20139; hereafter cited as *Keesing's*.

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intervention even when conditional, by an extra-continental power in the affairs of the American republics." Without specifically mentioning Cuba, the Foreign Ministers declared "that acceptance of a threat of extra-continental intervention by an American state endangers American solidarity and security."[4]

Subsequently, the Kennedy administration tried to persuade the O.A.S. to vote a collective trade embargo against Cuba. In January 1962, the O.A.S. urged all American governments to halt arms sales to Cuba, but they merely agreed to study the possibility of extending this ban to other items. An O.A.S. arms embargo meant little in practice, since the United States, the only major O.A.S. supplier of arms to Cuba, had banned such sales since March 1958. As of 1962, U.S. attempts to win O.A.S. support for its Cuban policies had achieved few concrete results, and created bad feeling and tension with those Latin American states who opposed taking action against Castro.[5]

In July 1964 the O.A.S. finally voted to urge all member states to end trade relations and diplomatic contacts with Cuba.[6] This action was precipitated by the discovery, in Venezuela, of an arms cache intended for terrorists and guerillas, which the O.A.S. concluded had come from Cuba. Trade in food and medicine was not banned; the value of trade affected by this decision was estimated at a mere $18,000,000 per year. This O.A.S. action was more a symbolic form of cooperation with the United States than an effective way of injuring Cuba. In September 1967, again provoked by Castro's efforts to export revolution, the O.A.S. called on all member states to take steps to control the movement of propaganda, persons, funds, and arms from Cuba to other Latin American states.[7]

THE OBJECTIVES AND SOURCES OF THE POLICY

The decision to end imports of Cuban sugar was primarily a punitive act of retaliation coming after months of deteriorating relations with Cuba. Expropriation of U.S. property, virulent Cuban accusations, bitter expressions of anti-Americanism, and growing contacts with the Soviet bloc had angered U.S. decision-makers and created widespread public demand for retaliation.[8]

[4] *New York Times*, August 29, 1960.

[5] Delesseps S. Morrison, *Latin American Mission* (New York 1965), 177-95; Jerome Slater, *The OAS and United States Foreign Policy* (Columbus, Ohio 1967), 135-74.

[6] *Ibid.*, 167-72.

[7] M. Margaret Ball, *The OAS in Transition* (Durham, N.C. 1969), 481-82.

[8] See, generally, Tad Szulc and Karl E. Meyer, *The Cuban Invasion: Chronicle of a Disaster* (New York 1962).

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The Eisenhower administration recognized the Castro regime on January 7, 1959, very soon after Batista's defeat. During the first few months that followed, the United States expressed its goodwill and "understanding sympathy" for Cuban desires for reform. However, American public opinion was soon shocked by the execution of several hundred Batista supporters, and concern gradually developed for the fate of American-owned property. Nonetheless, U.S. policy was one of "watchful waiting" combined with expressions of willingness to discuss Cuban proposals that would affect U.S. interests. Each passing month, however, brought increasing manifestations of anti-Americanism and a succession of incidents that embittered relations. Despite growing public demands for punitive action against Castro and the Administration's growing uneasiness about the direction of Cuban policy, the "policy of patience" continued into January 1960.[9]

Cuban leaders actively sought new trade links within months of coming to power. The Castro regime believed from an early stage that the diversification of its trade patterns was essential if Cuba was to be fully independent and achieve social and economic development.[10] As part of this effort, the Cuban leadership sought Soviet economic support. One analysis suggests that the Cubans deliberately radicalized their revolution in 1959 in order to win Soviet economic aid.[11] Cuban leaders strengthened the Cuban Communist party, launched radical internal programs, and then called on the Soviet Union to honor its professed commitment to support the spread of world revolution. Still, the Soviet Union was at first quite cautious about the Castro regime and reluctant to become very deeply involved.[12]

In January 1960 the U.S. Administration reviewed its Cuban policy. After Congressmen were sounded out concerning a possible move to cut the Cuban sugar quota,[13] President Eisenhower decided to continue the "policy of patience" a while longer. A White House statement issued late in January reiterated the commitment of the United States to the principle of non-intervention in the affairs of American states, and expressed determination to prevent Cuban exiles from launching

[9] Philip Bonsal, "Cuba, Castro, and the U.S.," *Foreign Affairs*, XLV (January 1967), 260-76.

[10] Edward Boorstein, *The Economic Transformation of Cuba* (New York 1968), 25-29.

[11] Edward Gonzalez, "Castro's Revolution, Cuban Communist Appeals, and the Soviet Response," *World Politics*, XXI (October 1968), 39-68.

[12] *Ibid.*; see also Stephen Clissold, ed., *Soviet Relations with Latin America 1918–1968: A Documentary Survey* (London 1970), 43-44.

[13] Nelson P. Valdés, "La diplomacia del azucar: Estados Unidos y Cuba," *Aportes*, No. 18 (October 1970), 99-119.

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illegal acts against Cuba from U.S. territory. It recognized the sovereign right of Cuba to engage in domestic reforms but expressed determination to defend the rights of American citizens in Cuba according to international law. It also expressed concern at the "unfounded accusations" directed at the United States, and cited Cuba's failure to respond to U.S. efforts to establish a basis for mutual understanding.[14]

The signing of a major Soviet-Cuban trade pact in February 1960 hastened the end of the "policy of patience." According to the terms of the pact, Cuba agreed to sell 425,000 tons of sugar to the Soviet Union in 1960 and 1,000,000 tons in each of the following four years. Soviet goods, including 6,000,000 barrels of oil annually, would constitute 80 per cent of the payments; the remaining 20 per cent was to be paid in convertible currency. The Soviet Union also granted Cuba a loan of $100,000,000 at 2.5 per cent annual interest for the purchase of Soviet-bloc machinery and material. It also agreed to provide technical assistance for the construction of plants and factories.[15] In the United States, the trade pact was viewed as an open invitation for the extension of Communist influence in an American sphere of influence.

Relations with Cuba deteriorated between February and June 1960. Congress and the general public increasingly cried out for strong action. Large segments of the public reacted to Castro because he defied the United States loudly and stridently, and seemed to be importing communism into the hemisphere.[16] Many were angered by what they considered a failure to appreciate the importance of U.S. trade. Most did not understand Eisenhower's "policy of patience" and wanted to hit back at the "speck of a country" which was "spitting in our face."[17] In an election year, it is not surprising that this strong public outcry should have had an effect on Eisenhower's decision to move against Cuba.

The expropriation of U.S. oil refineries late in June and early in July 1960 ended any remaining hopes of avoiding economic retaliation against Cuba. When the Cuban Government ordered the Texaco, Esso, and Royal Dutch Shell refineries in Cuba to process Soviet oil, the oil companies refused, heeding the advice of the U.S. Secretary of the

[14] Bonsal (fn. 9), 267-73.
[15] Clissold (fn. 12), 254.
[16] Ronald Hilton, "Castrophobia in the United States," *The Yearbook of World Affairs 1964* (London 1964), 56-72.
[17] Statement by George Sokolsky, spokesman for nationalist conservatives, quoted in Szulc and Meyer (fn. 8), 59.

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Treasury.[18] By May 1960 Cuban debts to the oil companies had begun to exceed the value of the refineries. At a time when the Cuban Government refused to release dollars to pay for imported Venezuelan oil, the oil companies had extended credit totaling $60,000,000; this unprofitable position probably contributed to the companies' willingness to risk expropriation.[19]

Before the President could take any action to curtail the Cuban sugar quota, Congress had to pass amendments to existing laws which spelled out exactly how many tons of Cuban sugar could be sold in the United States annually. Party politics and the concerns of Congressmen from sugar-growing states shaped the congressional debate on this issue. Both Democrats and Republicans hoped to benefit in the November elections by taking a strong anti-Castro position. Democrats, however, were naturally reluctant to give discretionary authority to a Republican President who could then take credit for the decision to act against Castro.[20] Some Congressmen from sugar-growing areas hoped their constituents would benefit from a redistribution of the Cuban sugar quota, but others feared that disrupting the existing system might dangerously unsettle the sugar market.[21] At an all-night session immediately before adjournment, the Democratic-controlled Congress finally granted Eisenhower discretionary authority to alter the Cuban sugar quota. In the rush, the impact of emotional argument was maximized.[22]

By late June the Department of State—which had resisted the idea of economic retaliation longer than other elements within the administration—concluded that some strong retaliatory action was necessary. It feared that the United States had come to look weak, and that other Latin American revolutionaries might take heart in the face of apparent American inability to deal strongly with Castro. The Administration was not unaware that the end of the sugar trade might lead to closer Cuban-Soviet ties, but it felt compelled to make a strong gesture to assert U.S. determination to defend its Latin American sphere of influence against what it perceived to be dangerous Communist incur-

[18] Philip Bonsal, the U.S. Ambassador to Cuba, suggests that the oil companies might have reluctantly agreed to process Soviet oil if the U.S. Government had not pressed them to refuse. See Bonsal (fn. 9), 272.

[19] *New York Times*, July 4 and 6, 1960; Szulc and Meyer (fn. 8), 62.

[20] *New York Times*, March 16, 19, and 20, 1960.

[21] *New York Times*, January 23, and 24, and March 7, 1960; Robert F. Smith, *The United States and Cuba* (New York 1960), 180-81. See also Valdés (fn. 13) generally.

[22] Szulc and Meyer (fn. 8), 62; Smith (fn. 21), 181; *New York Times*, June 22, 1960.

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sions. It also hoped that by punishing Cuba it could demonstrate to other Latin American states that their well-being required close and friendly relations with the United States rather than with the Communist world.[23]

Cuba developed closer ties with the Soviet bloc soon after President Eisenhower cut the sugar quota. The Soviet Union quickly arranged to buy more sugar, and Cuba negotiated a succession of trade pacts with Communist-bloc states during the next few months. Cuba moved forward rapidly with the expropriation of U.S. property, and exchanges between the two states were relentlessly bitter. The dispute was aired in the O.A.S. and the United Nations. In this atmosphere, the United States moved to take further punitive action against Castro. Two weeks before the presidential election of November 1960, Eisenhower announced the ban on U.S. exports to Cuba. This action was timed to help the Presidential campaign of Richard M. Nixon, who had to contend with John F. Kennedy's criticism of President Eisenhower's "weak" Cuban policy.[24]

In his campaign speeches Kennedy had promised to "do something about Fidel Castro." As President he approved a C.I.A. plan for the invasion of Cuba by a U.S.-trained army of Cuban exiles. (President Eisenhower had approved the creation of this force in March, 1960.) Their defeat at the Bay of Pigs, on April 19, 1961, led Kennedy to de-emphasize force as a tool against Castro. Instead, he strengthened economic coercion and put pressure on other states to cooperate with this policy. The Kennedy administration hoped that economic coercion might weaken Castro's hold on power, cut down his ability to export revolution, disrupt Cuban efforts to achieve economic development, and make it more difficult for Cuba to portray itself as a successful revolutionary society.[25]

President Johnson continued these policies. The outbreak of civil war in the Dominican Republic in 1965 brought U.S. military intervention, which expressed the Administration's determination to resist the spread of revolution. It reinforced the Administration's view that a stance of strong opposition to Castro was still needed. However, with large-scale U.S. military intervention in Vietnam, Cuba came to occupy less and less attention on the part of U.S. policy-makers. Nonetheless, economic coercion remained in effect.

Although U.S. policy-makers hoped that economic coercion would

[23] Szulc and Meyer (fn. 8), 63-64; *New York Times*, June 25, July 10, and October 20, 1960.

[24] Szulc and Meyer (fn. 8), 65-72.

[25] Slater (fn. 5), 139.

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contribute to the downfall of Castro and restrain his efforts to spread revolution, they also set other, more symbolic, goals for the policy of economic coercion. Through the years, economic coercion has served as a declaration of the belief of successive administrations in the right of the United States to exercise its influence in the affairs of Latin America. Moreover, it has served to declare U.S. determination to oppose Castro and the spread of similar revolutionary regimes. Economic coercion served to deflect domestic demands for action against Castro and aimed to assure some foreign governments and groups that the United States intended to continue to resist Communist expansion.

THE IMPACT OF ECONOMIC COERCION

While the United States has achieved some of its objectives through the policy of economic coercion, it has failed to achieve others; some of the effects of the policy have been clearly detrimental to U.S. interests.

Before the U.S. trade embargo, Cuba had sold an average of 3,000,000 tons of sugar each year to the United States, at prices that had been kept artificially high by laws designed to protect the high-cost U.S. producer. Few countries outside the Soviet bloc were willing or able to absorb the enormous quantity of Cuban sugar barred from the United States after July 1960. Western Europe grew large quantities of sugar beet and had agreements with other cane-producing tropical countries. When the Soviet Union offered to buy much of the Cuban sugar that had been denied access to the U.S. market, the move was not based upon need: The Soviet Union grew very large amounts of sugar at home. Still, since 1961 the Soviet bloc and China have absorbed the bulk of each Cuban sugar harvest. In 1961, for example, they bought 4,891,000 tons out of a total harvest of 6,464,000 tons.[26]

The fact that Soviet-bloc states paid only 20 per cent in convertible currency left Cuba short of foreign exchange and made it more difficult to shop around freely in Western countries. Cuban dissatisfaction with the price paid for its sugar by the Soviet bloc in 1960, 1961, and 1962 led to renegotiated terms in 1963.[27] Cuba won a higher price, but payments are still made primarily in barter.

U.S. economic coercion hastened the development of a clash between the superpowers over Cuba. When Eisenhower cut the Cuban sugar quota, Khrushchev quickly threatened to defend Cuba with missiles; in return, the United States charged that Russia was trying to make

[26] Clissold (fn. 12), 44, 47; *New York Times*, September 9, 1962.
[27] Clissold (fn. 12), 51.

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Cuba into an instrument of Soviet policy. The Administration asserted that the U.S. would not "permit the establishment of a regime dominated by international communism in the Western Hemisphere."[28] Castro provided the United States and the Soviet Union with a new arena in which to act out their potentially explosive antagonism. The missile crisis of October 1962 exemplified the dangers inherent in such a situation.

Because Cuba deliberately sought to end its trade dependence on the United States, some trade reorientation would have occurred even if the U.S. had not applied economic coercion, but the trade boycott made the break more complete than it would otherwise have been. Prior to 1960, 65-75 per cent of Cuban trade was linked to the United States. In 1961 the Communist bloc was taking 75 per cent of Cuban exports, and Cuba received 86 per cent of its imports from Communist states.[29] U.S. trade with Cuba had begun to decline even before Eisenhower cut sugar imports, due to Cuban exchange controls which attempted to regulate the flow of dollars, Cuban import licensing designed to restrict "nonessential" purchases, and a generally deteriorating business climate. When American suppliers began to experience difficulties in receiving payment for past deliveries or for new orders, many of them voluntarily abandoned trade with Cuba. The shortage of dollars caused by the end of the sugar trade with the United States made Castro even more unwilling to permit "nonessential" dollar imports.

The following table describes the decline in U.S.-Cuban trade after Castro's rise to power on January 1, 1959.[30]

	U.S. Exports to Cuba	U.S. Imports from Cuba
1958	$546,947,000	$527,831,000
1959	438,593,000	474,663,000
1960	223,726,000	357,306,000
1961	13,716,000	35,125,000
1962	13,398,000	6,808,000
1963	36,475,000	55,000

The decline in trade between 1958 and 1959 reflects Castro's licensing laws, exchange controls, and the worsening business climate. The sharp drop in U.S. exports between 1959 and 1960 was due to the continuing effect of these factors and the beginning of the U.S. ban on most

[28] *New York Times*, July 10, 1960. [29] Clissold (fn. 12), 266-71.
[30] U.S. Department of Commerce, *U.S. Trade with Cuba 1960–1963* (Overseas Business Reports, May 1964).

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exports to Cuba. The steep drop in imports of Cuban products between 1960 and 1961 and thereafter reflects the end of the sugar trade. In 1961, 1962, and 1963 U.S. exports to Cuba consisted primarily of medicine and medical supplies. Some livestock entered Cuba until May of 1961.[31] In the summer of 1961 Cuba stopped buying unsubsidized food, which could still be obtained from the United States, in order to preserve dwindling dollar reserves. Cuban products practically disappeared from the U.S. market by 1963 after the Kennedy administration introduced a series of sweeping bans in 1962.

Most of Cuba's capital equipment was U.S.-made, and the trade embargo sharply reduced the number of available spare parts and replacements. A wide range of capital equipment began to break down in mid-1961, affecting transport, oil refineries, and sugar mills. As equipment broke down, spare parts were taken from working models, causing further acceleration of the process. Moreover, transport breakdowns affected many other economic activities such as food distribution and the sugar cane harvest.

Some U.S.-made spare parts did reach Cuba. A black market was operated by international racketeers who, for example, bought parts in Canada and had them delivered to Casablanca, from where they were transshipped to Cuba.[32] Exporters also created dummy corporations in countries such as Mexico, which they used to import American products and ship them on to Cuba.[33] When the authorities detected some of these activities, the participants lost their U.S. export privileges.[34] Some spare parts for American-made machinery were eventually copied and produced in Soviet-bloc states and Cuba; after several years Cuban capital stocks were gradually replenished with new equipment from the Soviet bloc and Western Europe. This alleviated part of the "spare-parts crisis" but not until several years' productivity had been affected. The initial impact has had a lingering effect on efforts to develop the Cuban economy.

When the United States initiated its economic coercion, the content of Cuban trade changed as dramatically as its direction. Before 1960

[31] *The Guardian*, June 9, 1961.

[32] *The Sunday Times* (London), May 26, 1963. See also U.S. Congress. Senate. Committee on the Judiciary, Subcommittee to Investigate the Administration of the External Security Act and other Internal Security Laws, *Exports of Strategic Materials to the U.S.S.R. and Other Soviet Bloc Countries* (Washington, D.C. 1961), 212.

[33] *New York Times*, September 11, 1963.

[34] *New York Times*, September 27 and December 21, 1961. Several British businessmen lost U.S. export privileges after attempting to buy oil refinery equipment for re-export to Cuba. See *Daily Telegraph*, March 23, 1962. For a similar case, see *The Times* (London), January 4, 1963.

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Cuba had relied on U.S. trade for a wide variety of food products and consumer goods. The embargo complemented the Cuban Government's decision to reduce the emphasis on consumer goods and stress basic economic development. Imported Soviet products consist primarily of oil, staple agricultural commodities, equipment, and military supplies.

The reorientation of Cuban trade ended smooth working relationships with U.S. suppliers and distributors. The Cuban Government had to find new suppliers in unfamiliar markets thousands of miles away. Imports had to be arranged through the Cuban governmental bureaucracy and the bureaucracies of several Communist states. This took months to carry out.

Durable consumer goods practically disappeared from stores in 1961, and basic consumer items such as soap, toothpaste, and clothing had to be rationed. Food shortages first occurred in mid-1961. Food rationing has been in effect since January 1962. There has been no starvation, but the quality and variety of food have been minimal. The U.S. trade embargo sharply reduced Cuban supplies of fertilizer, fodder, and agricultural machinery. Naturally, this aggravated food shortages. Months passed while the Cuban Government tried to arrange for alternate sources of these products. Transport breakdowns caused by the spare-parts shortage complicated the operations of the inefficient governmental food distribution system. The effects have been felt primarily in urban areas, where the bulk of the population lives.

The U.S. trade embargo was not the only factor causing food shortages. Poorly trained managers made errors, as did the large number of unskilled farm laborers.[35] Low food prices set by the regime increased demand; this tempted peasants to sell food on the black market rather than to the government purchasing agency. When Castro attacked these practices, the peasants reacted by growing less food, thereby aggravating shortages still further.[36] René Dumont, a sympathetic French agronomist, believes that the degree and rapidity of collectivization of agricultural production contributed to the low output.[37] Poor livestock management, coupled with increased demand in 1960 and 1961, led to wholesale slaughtering of herds without regard for future needs.

[35] Theodore Draper, *Castro's Revolution: Myths and Realities* (New York 1962), 131-34. See also Boorstein (fn. 10), 43-54.
[36] Theodore Draper, *Castroism: Theory and Practice* (London 1965), 137.
[37] Dumont, *Cuba, socialisme, et développement* (Paris 1964), 104-11.

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The flight from Cuba of the skilled middle class deprived Cuba of many of the trained personnel who had formerly kept the economy functioning. Some of the mistakes and mismanagement of the early years of the Castro regime may be traced to the fact that the jobs they left were filled by incompetent people.

The U.S. trade embargo assured that the reorientation of Cuban trade would be massive in scale and would have to take place swiftly. The scale and rapidity of the change led to purchasing errors. Trade relations with the United States had run on a pattern of frequent small shipments. Cuba had insufficient warehousing capacity, and its docks were ill-equipped, to deal with the large shipments that began to arrive from the Soviet bloc. Due to the initial confusion caused by the government takeover of the distribution system, some imports rotted on docks before they could be properly stored or distributed.

Although the bulk of its trade was reoriented toward the Soviet bloc, Cuba has continued to have some trade relations with non-Communist states. In the early 1960's Western European trade with Cuba generally declined. For example, British exports to Cuba declined from £15,000,000 in 1959 to £2,500,000 in 1962; imports from Cuba dropped from £10,000,000 in 1959 to £7,100,000 in 1962. Taking all the NATO countries as a whole, imports from Cuba dropped from $79,000,000 in 1959 to $32,000,000 in 1961; exports to Cuba dropped from $138,000,000 in 1959 to $86,000,000 in 1961.[38] This was probably due more to Cuban shortages of foreign exchange and the bad business climate than to U.S. pressure on these states to reduce trade. In more recent years the decline in Western European trade with Cuba has been arrested.

Some Western states increased their trade with Cuba despite American pressure. Spanish trade with Cuba amounted to $10,000,000 in 1962; it increased to $24,000,000 in 1963. In 1965 a five-year trade pact was signed in which Spain agreed to supply a range of boats, cargo ships, and other items. Spain also established regular air service to Cuba. In 1963 the United States threatened to cut off aid to Spain if it persisted in this policy, but when diplomatic pressure failed, it did not apply this punishment.[39]

Canada also increased trade with Cuba soon after the start of the U.S. trade embargo. In 1960 Canadian trade with Cuba amounted to $13,000,000. This increased to $31,000,000 in 1961.[40] In addition, wheat

[38] *New York Times*, September 16, 1962.
[39] *New York Times*, December 21, 1963; *New York Herald Tribune* (European Edition), December 23, 1963.
[40] *New York Herald Tribune* (European Edition), November 19, 1961 and February 7, 1962.

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sold by Canada to the Soviet Union was sent on to Cuba.[41] In recent years Japan has had a large amount of trade with Cuba, estimated at $90,000,000 in Cuban imports annually.[42] Still, total non-Communist trade with Cuba does not amount to much more than 20 per cent of all Cuban exports and imports.[43]

The content of Western trade is relevant in an attempt to assess its importance to the Cuban economy. Buses, trucks, and locomotives from England and France helped reduce the impact of the spare-parts crisis.[44] Tractors, electrical equipment, and machine tools also came from Western Europe. A plant to make chemicals from the by-products of sugar refining was commissioned in Western Europe in 1963.[45] In 1967 Canada agreed to provide Cuba with a plant to make fertilizer.[46] Australia and New Zealand helped, in 1962, to restock Cuba's badly neglected livestock herds by selling 700 head of breeding cattle. British firms supplied an animal fodder plant and milking machinery.[47] This trade has played a not insignificant role in the Cuban economy by providing essential items which the Communist bloc has been unwilling or unable to supply.

In 1960 the Administration managed to persuade Morocco not to use U.S. foreign-aid funds to buy Cuban sugar.[48] In February 1964 the United States cut off some minor aid programs to Britain, France, and Yugoslavia because vessels registered in these states had continued to carry cargo to Cuba.[49]

In February 1963, the United States began to deny U.S. Government-owned or Government-financed cargoes to ships carrying cargo to Cuba. The number of ships on the blacklist rose with each passing month, indicating that shipowners were willing to forgo U.S. cargoes in exchange for what appeared to be a lucrative trade with Cuba. The number of blacklisted ships declined somewhat in December 1963, when negotiations between American officials and four British shipping companies led to the removal of their ships from the blacklist in exchange for assurances that they would be withdrawn from the Cuba trade as soon as existing charter contracts expired.[50] The blacklist policy

[41] *Le Monde*, January 22, 1963; *New York Times*, September 17, 1963.
[42] *Newsweek*, January 25, 1971.
[43] Wilbur F. Buck, "Cuba's Agricultural Output is Lagging Despite Shifts in Farm Policy," *Foreign Agriculture*, VI (January 29, 1968), 3.
[44] Raymond Carr, "Cuban Dilemmas," *World Today*, XXIII (January 1967), 40. See also *Annual Register of World Events: 1964*, Ivison Macadam, ed. (London 1964), 201-202. Hereafter volumes in this series are cited as *Annual Register*.
[45] *Annual Register: 1963*, 206-207.
[46] Buck (fn. 43).
[47] *New York Times*, April 28 and May 13, 1962; *Financial Times*, June 5, 1963.
[48] *New York Times*, August 20, 1960.
[49] *Annual Register: 1964*, 193.
[50] *The Times* (London), December 17, 1963.

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did not prevent Communist-bloc shipments to Cuba, but the expense of chartering added to the financial burden which Cuba represented for the Soviet Union. In recent years, the Soviet merchant fleet has grown, and there has been less need to rely on Western shipowners to take cargo to Cuba.

If U.S. economic coercion is one cause of Cuba's economic difficulties, Cuban economic policy errors have been an equally important causal factor. Cuban leaders freely admit that they have made policy errors which set back economic development.[51] During the first few years Cuban leaders planned rapid industrialization with Soviet assistance. They later realized that it would cost more to import the raw materials needed to run the import-substitution plants which they were trying to develop than it would to buy the finished products abroad. Hopes for rapid development of heavy industry were revised as it became apparent that plants promised by the Soviet Union would take a long time to arrive and become operational.[52] In the early years there was a general failure to grasp the fact that Cuban resources were limited and that economic development was a slow and difficult process.

Due to its initial stress on industrial development the Cuban government at first neglected the sugar crop, and the result was a sharp decline in sugar output in 1962, 1963, and 1964. The following table lists the approximate size in tons of each annual sugar harvest between 1959 and 1970.[53]

1959	6,000,000
1960	5,900,000
1961	6,600,000
1962	4,800,000
1963	3,900,000
1964	4,500,000
1965	6,000,000
1966	4,500,000
1967	6,200,000
1968	5,500,000
1969	4,500,000
1970	7,700,000

[51] Speech by Ernesto "Che" Guevara; see *New York Times* (International Edition), December 26, 1962.

[52] Draper (fn. 36), 147.

[53] Source for 1959–1961: *New York Times*, June 27, 1961; source for 1962–1969: Edward Gonzalez, "Castro, the Limits of Charisma," *Problems of Communism*, XIX (July–August 1970), 17; source for 1970: *International Herald Tribune*, July 20, 1971.

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Small harvests in 1962–1964 meant that Cuba could not deliver as much sugar to the Communist-bloc countries as it had contracted to, and this limited the amount of products it received in return. The decline also meant that Cuba had to be released from part of its commitment to deliver sugar to the Soviet bloc: Some of the sugar had to be sold on the open market in order to obtain the foreign exchange Cuba needed to buy products not provided by the Communist bloc. These difficulties helped persuade the Cuban leadership to revise its economic policies. In 1963 it was decided to increase sugar output and to expand, modernize, and diversify agricultural production generally.[54] The regime now sees a healthy agricultural economy as the basis for slow industrialization carried out over the long term.

Between 1961 and 1968, total Cuban per capita production dropped by 29 per cent.[55] The very rapid pace of collectivization and nationalization of land, industry, and business was one of the factors contributing to this decline. Even well-trained people would have had difficulties attempting to reorganize the economy so thoroughly and so rapidly; Castro's spirited but ill-equipped new bureaucrats and managers made many mistakes, especially in the early years.

By spurring the rapid takeover of American firms in Cuba, the U.S. economic embargo contributed to the decline in Cuban per capita production. Although Russian technicians moved in to operate the plants, they were not always able to work out the processes. Since spare parts were difficult to obtain, equipment in many of the plants soon began to break down. Eventually, Soviet-bloc technicians did figure out some of the processes and were able to build spare parts or replace machinery, but the lost time and output had by then set back Cuban development efforts.

As a disruptive force, U.S. economic coercion had its most dramatic impact in 1961–1964. Since then, Cuba has gradually adjusted to its worst effects. Today, a major share of the blame for Cuba's current development problems must be attributed to the regime's own errors, the limits set by the environment, and the shortcomings of Soviet-bloc trade and aid. Nonetheless, renewed U.S. trade could ease the strains on the Cuban economy and help Castro try to achieve his economic goals. It could increase Cuban dollar reserves and give Castro more trade options.

The scale of Soviet-bloc aid to Cuba has been huge. Between 1961

[54] *New York Times*, February 14 and June 2, 1962; interview with "Che" Guevara in *L'Express*, July 25, 1963.
[55] Gonzalez (fn. 53), 15.

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and 1967 alone, Cuba accumulated a debt of $1,100,000,000 to the Soviet Union and additional debts to Eastern European states.[56] The expense of sending thousands of technicians to Cuba, as well as the cost of chartering ships to carry products, should also be added.[57] Without this massive aid from the Soviet bloc, the impact of U.S. economic coercion would probably have been more severe.

United States policy-makers obviously do not welcome the influence which Soviet aid gives Russian leaders in Cuban affairs. Yet, as long as U.S. economic coercion continues, neither Cuba nor the Soviet Union can easily loosen their economic ties. They both probably wish to be less closely tied to each other, but without Soviet support the Cuban economy cannot maintain its present level. There are no alternate sources of aid on a similar scale. Cuba cannot easily find a market for its huge sugar crop outside *both* the United States and the Soviet bloc.

Despite his dependence on Soviet aid, Castro has taken an independent line on some questions. He refused to sign the Soviet-U.S. test-ban treaty, although, in January 1964, in a joint communiqué from Moscow, he welcomed it as a step toward peace and disarmament.[58] Cuba has recognized Albania and has entered into trade relations with Romania.[59] It has also not hesitated to criticize the Soviet Union severely, after the missile crisis of October 1962, for withdrawing its missiles under pressure from the United States.

Cuban contacts with China are another measure of its independence from Soviet influence. Cuba has had trade relations with China since 1960, bartering sugar for Chinese goods. In 1965, however, Soviet pressure led to the reduction of the Cuban-Chinese trade pact from $250,000,000 to $170,000,000.[60]

The Sino-Soviet split has probably helped Castro to retain some independence from the Soviet Union. For example, after the missile crisis of October 1962, friendly exchanges between Castro and China probably speeded Russian reconciliation with Cuba and increased the amount of aid which the U.S.S.R. was prepared to offer.[61] Castro's attitudes are probably closer to those of the Chinese leaders than to

[56] *Ibid.*, 13-14.

[57] *New York Times*, September 16, 1962. At that time, one-third of all Soviet deliveries to Cuba were carried in NATO-flag ships. The cost of chartering was estimated to be $1,250,000 per month in 1962.

[58] *Keesing's*, February 1–8, 1964, p. 19888.

[59] Clissold (fn. 12), 57. Romania agreed to supply oil-drilling equipment to Cuba in 1968, at a time when the Soviet Union used Cuban dependence on Soviet oil as a means of bringing pressure on Castro.

[60] Edwin Lieuwen, *The United States and the Challenge to Security in Latin America* (Columbus, Ohio 1966), 43.

[61] Clissold (fn. 12), 51-52; Lieuwen (fn. 70), 38-43.

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those of the Soviet leaders, but his dependence on Soviet aid has from time to time caused him to give lip service to such Soviet policies as "peaceful coexistence."

One major goal of U.S. policy was to block Cuban efforts to advance revolutionary causes in other Latin American countries, but economic coercion is not likely to have been among the more influential of the many factors which have limited Castro's efforts to export revolution. Weapons and supplies needed by guerillas have reached their destination despite the U.S. trade boycott. Dollar shortages and controls on currency transactions have created only minor difficulties.

Soviet pressure on Castro has probably had more influence in limiting Cuban efforts to export revolution. Soviet leaders have favored a cautious approach to the spread of revolution in Latin America. They conceded only reluctantly that some aid to insurgents might be justified, hoping by this policy to maintain some influence over guerilla activities.[62] After the civil war in the Dominican Republic in 1965 and subsequent U.S. military intervention, the Soviet Union and Moscow-line Latin American Communist parties argued more strongly against the technique of armed revolution. In Venezuela the Communist party gradually abandoned its support of Fidelista guerillas.

When guerilla activity in Venezuela, Peru, and Colombia subsided after 1965, Castro attempted to revive the prospects of Latin American revolution by supporting a guerilla band in Bolivia led by "Che" Guevara. The effort failed with Guevara's death in October 1967, and the prospects for revolution in Latin America seemed bleak. At that point the Soviet Union felt more free to put pressure on Castro to de-emphasize the technique of armed revolution. Bad relations between Moscow and Havana ensued. Late in 1967 Soviet deliveries of oil were slowed down, and Castro announced gasoline rationing on January 2, 1968. He responded to Soviet pressure by putting thirty-five Cuban Communists on trial for pro-Soviet activities in January 1968. Trade agreements signed in March 1968 contained more difficult terms for Cuba.[63] This period marked one of the lowest points in Cuban-Soviet relations.

The Soviet invasion of Czechoslovakia in August 1968 gave Castro a chance to make amends. In exchange for support for the invasion, a rapprochement was worked out by 1969. Improved relations were reflected in better terms for Cuba in the trade pacts of 1969 and 1970. Castro also stopped attacking Moscow-oriented Latin American Com-

[62] *Ibid.*
[63] Gonzalez (fn. 53), 18-19; Clissold (fn. 12), 56-57.

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munist parties. Although he still proclaimed faith in armed revolution, Castro now stated that there could be other roads to freedom from imperialism and the creation of social revolutionary societies.[64]

Soviet pressure was one element in Castro's decision to put less stress on armed revolution in Latin America. Other factors were equally important. Changing conditions in Latin American states were not always favorable. Castro may be hoping to reduce his dependence on Soviet aid by developing contacts with Latin American governments, and a more moderate line on revolution may facilitate this step. His warm support for Socialist Salvador Allende, the Chilean President, is one example. Diplomatic relations and trade contacts between Chile and Cuba have been restored, and late in 1971 Castro made a lengthy visit to Chile, his first trip outside Cuba in many years.

The policy of economic coercion has given Castro a scapegoat to divert attention from internal problems and the errors of the regime. Cuban leaders admit their errors, but they also blame "the imperialist blockade" for some of their problems. The regime has made U.S. economic coercion a rallying point for the people as it attempts to bolster spirits and increase productivity. Standing up to the "North American giant" helps make Castro look like a hero.

A renewal of U.S. trade with Cuba could help Castro to loosen his dependence on the Soviet bloc. This may be desirable from one point of view; however, since Soviet influence seems to have acted as a restraint on Castro's desire to export revolution, it is not self-evident that reduced Soviet influence would serve all the interests of the United States. The end of U.S. economic coercion might reduce the tension and hostility, but it is more likely that a resumption of trade would itself be a reflection of a prior improvement in relations.

In summary, economic coercion did put pressure on the Cuban economy, creating shortages and making economic development more difficult to achieve, but other factors contributed to these conditions. The U.S. trade embargo placed the burden of Cuba's support on the Soviet Union, and may have reinforced its leaders' conservative attitude concerning the spread of revolution in Latin America. By helping to bring about and maintain a deep Soviet involvement in Cuba, economic coercion did not serve U.S. interests. It contributed to the tension between the Soviet Union and the United States, expressed in such dangerous confrontations as the missile crisis of October 1962.

[64] Gonzalez (fn. 53), 24; speech of April 22, 1970.

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It is possible that the extension of Soviet influence in Cuba and a clash between the Soviet Union and the United States might have occurred even in the absence of a policy of economic coercion, but that policy clearly hastened these developments. U.S. economic coercion also provoked bad feelings between the U.S. and some of its friends and allies who were reluctant to support these measures. The policy has not brought down Castro's government; rather, it has given him a rallying point for the people and a scapegoat on which to blame his problems. As a concrete sign of U.S. hostility, the policy made it easier for Castro to justify a large army and totalitarian controls.

Although economic coercion would thus appear not to serve many U.S. interests, it was applied because it met public demands for action against Castro. The Government, reflecting the demands of an enraged public, was unwilling to allow Castro to benefit in any way from U.S. trade. The policy was a punitive reprisal against actions interpreted as being contrary to U.S. interests. In addition, economic coercion was applied and maintained as a symbolic affirmation of the U.S. belief in its right to maintain a position of pre-eminent influence in Latin America. It was a declaration of U.S. opposition to the spread of revolution and Communist influence in an area deemed to be within its "sphere of influence." For more than a decade, successive U.S. Administrations have felt that such a symbolic statement needed to be made in a forceful, concrete fashion. With the passage of time, goals and attitudes may well evolve and U.S. policy-makers may finally decide that the utility of economic coercion as a symbol has decreased. In view of the disadvantages of the policy described above, economic coercion against Cuba might in that case be abandoned.

II. U.S. Economic Coercion Against the Dominican Republic, 1960–1962

In 1960–1962 the U.S. applied economic coercion against the Dominican Republic in an attempt to force an end to the Trujillo regime, to bring about a more democratic government, and to avoid the kind of chaos which could lead to a Castro-style revolution. Trade in arms, petroleum products, trucks, and spare parts was stopped, and U.S. purchases of Dominican sugar were limited. These steps were applied partially within the framework of the O.A.S., but the measures were primarily a unilateral effort by the United States.

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THE OBJECTIVES AND SOURCES OF THE POLICY

The Cuban experience shaped U.S. policy goals in the Dominican Republic in 1960–1962: The Eisenhower and Kennedy administrations hoped to be able to prevent the development of another revolutionary regime in the Caribbean on the model of Castro's Cuba. They feared that the continuing existence of the Trujillo dictatorship would sooner or later lead its opponents to turn to violent revolution. To avoid this, U.S. policy-makers hoped to bring about a peaceful change in Trujillo's government, leading to a more democratic regime. Economic coercion was one of several tools used by the U.S. in an attempt to achieve these goals.[65]

The specific objectives of U.S. policy-makers shifted with the movement of events in the Dominican Republic. At first, the aim was to end the personal rule of Trujillo. After his assassination on May 30, 1961, the United States endeavored to rid the country of the power of the large Trujillo family and its supporters. After November 1961, U.S. policy more directly supported the Dominican opposition parties in their attempt to gain power.

The general public in the United States knew little about Trujillo and the Dominican Republic and brought little pressure to bear on the Administration in regard to its policy of economic coercion. A few influential Congressmen did try to oppose the policy, however, on the assumption that Trujillo was a force for stability.

THE INSTRUMENTS OF THE POLICY

The United States attempted to place its activities within a partial O.A.S. framework in order to gain support for what were primarily unilateral U.S. actions. It also tried to establish a precedent for collective inter-American economic sanctions, which it hoped to persuade the O.A.S. to apply against Cuba. The immediate pretext for O.A.S. action against the Dominican Republic was Trujillo's attempted assassination of Rómulo Betancourt, President of Venezuela, on June 24, 1960.[66] In August 1960, meeting in San José, Costa Rica, the O.A.S. Foreign Ministers called on all member states to sever diplomatic relations with the Dominican Republic. Most members, including the United States, complied quickly. The U.S. retained consular relations, however, and this provided a channel for diplomatic contacts with Dominican leaders.[67]

[65] For a discussion of U.S. policy in the Dominican Republic during this period see Morrison (fn. 5), 114-15, 118-28; Slater (fn. 5), 184-85, 195-204.

[66] *Ibid.*, 190-92.

[67] *Ibid.*, 183-211; Morrison (fn. 5), 118-28.

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The August 1960 O.A.S. meeting also urged all member states to stop selling arms to the Dominican Republic. This action was primarily symbolic, since the United States, which had been the only major American state providing arms to Trujillo, had stopped such sales in March 1958 in order to prevent arms from reaching Cuba through the Dominican Republic during the last phases of the Cuban revolution.

Five more months passed before the United States, with strong assistance from Venezuela, was able to persuade the O.A.S. to vote additional economic sanctions. On January 4, 1961, the O.A.S. urged its members to "extend the suspension of their trade with the Dominican Republic to the exportation of petroleum products, trucks and spare parts."[68] The United States and Venezuela were the main suppliers of these products to the Dominican Republic.

The O.A.S. approved these measures only after a very close vote, since some Latin American states viewed them as unwarranted intervention in the internal affairs of the Dominican Republic. Despite Trujillo's attempt on the life of the Venezuelan President, some states did not accept the idea that the Dominican regime constituted a continuing threat to international peace, which they regarded as the only possible basis for collective measures against it. They did not accept the view of the Inter-American Peace Committee, put forth in a report in 1960, that violations of human rights perpetrated by a government against its own people may amount to a threat to international peace.[69]

The most effective economic measures taken against the Dominican Republic involved sugar, the single most important element in the Dominican economy, but restraints on Dominican sugar sales were never approved by the O.A.S. This aspect of the policy of economic coercion was carried out by the United States alone.

When Congress granted President Eisenhower power to cut off purchases of sugar from Cuba, it stipulated that the redistributed Cuban sugar quota "shall be purchased" from other countries currently selling sugar to the United States. According to fixed schedules in the legislation, the Dominican share of the reassigned Cuban quota was to be 322,000 tons in 1960. Legally, this mandatory provision left the President no discretion to block these additional purchases from the Dominican Republic. Since Eisenhower had by then decided to begin applying pressure to force a change in the Dominican regime, he initially chose to ignore these mandatory provisions of the sugar laws.

[68] *New York Times*, December 21, 1960 and January 4, 1961.
[69] Slater (fn. 5), 186-89.

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No portion of the Cuban sugar quota was redistributed to the Dominican Republic in July and August of 1960.[70] The normal Dominican sugar quota of 130,000 tons for 1960 was unaffected, but the Administration decided that to supplement this quota with an additional 322,000 tons from the Cuban quota, as the law required, would contradict its anti-Trujillo efforts.

The Administration's failure to authorize purchases of Dominican sugar provoked the wrath of the chairmen of both the Senate and House Agriculture Committees. The Senate Committee Chairman, Allen J. Ellender (Democrat, Louisiana), openly supported Trujillo, stating, "I wish there were a Trujillo in every country of South and Central America tonight."[71] In an attempt to bolster his position, President Eisenhower asked Congress for authority to purchase the Dominican portion of the Cuban sugar quota elsewhere. Congress failed to pass such a measure prior to adjournment on September 1, 1960. This left standing the law requiring the President to allow an additional 322,000 tons of Dominican sugar to enter the country by the end of 1960.

The separation of powers between the legislative and executive branches had in this instance enabled the legislature to thwart the foreign policy of the executive. The Administration decided to allow the purchase of the additional tonnage, but mitigated part of the effect by charging an "entrance fee" of 2¢ per pound, payable in advance. This deprived Dominican sellers of the full benefits of the high U.S. premium price. Instead of 5.7¢ per pound, they in effect received 3.7¢ per pound. Nonetheless, this price was approximately 0.45¢ above the world market price.[72]

When the Kennedy administration took office in January 1961, it decided to leave intact the normal Dominican sugar quota for 1961, amounting to 111,157 tons.[73] However, with the election of a Democratic President, the clash between the executive and legislative branches of government had lessened, and Kennedy was free to apply fully the steps which Congress had denied to Eisenhower. He requested and received changes in the sugar laws from the Democratic-controlled Congress, permitting the President to cut off the Dominican Republic's share of the 1961 redistributed Cuban quota amounting to 222,723 tons.

THE IMPACT OF ECONOMIC COERCION

The Dominican economy was already weak prior to the imposition of economic coercion: A fall in world market prices for coffee, sugar,

[70] *New York Times*, July 21, 1960.
[71] *New York Times*, August 24, 1960.
[72] *New York Times*, September 23, 1960.
[73] *New York Times*, April 1, 1961.

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and cacao had seriously affected income; internal disorders had led to a decline in tourism; and huge new military expenditures in 1959 and 1960 had contributed to unbalancing the budget.[74] The country had practically no foreign reserves, and loans from outside sources were not forthcoming. Trujillo raised taxes on imports in an effort to keep the balance of payments in line, thereby imposing higher prices on a population heavily dependent on imported consumer goods.

The economy deteriorated further during the period in which U.S. economic coercion was in effect. Observers found economic life in a perilous condition in September 1961.[75] Foreign credit had dried up and money was tight. Business, industry, construction, and investment were at a standstill. Out of a population of two million, an estimated three hundred thousand were unemployed. Appeals for food were made to various relief agencies. Fear and uncertainty deepened the preexisting economic stagnation: Dominicans awaited clarification of the future political direction of the country before risking new investment. Tourism had diminished even further.

The primary economic effect of U.S. sugar restrictions had been to prevent a large increase in Dominican revenues at a time when this could have substantially bolstered the troubled economy. Trujillo was aware of the potential economic importance of increased sugar sales to the U.S. market and tried to avert the policy of economic coercion by attempts to improve his image and to persuade observers that he was taking steps to loosen his dictatorial rule. He also vaguely threatened to deal with U.S. hostility by making overtures to the Communist bloc.[76]

Late in June 1960, Trujillo had established elective municipal and provincial offices. He allowed staged elections for these positions—which his party easily won—to take place on December 15, 1960. In August 1960, while the U.S. Congress and Administration were deciding on the re-allocation of the Cuban sugar quota and the O.A.S. was preparing a meeting to decide how to punish Trujillo for his attempted assassination of the President of Venezuela, the dictator ordered his brother to resign from his post as puppet-President. The Vice President, Joachim Balaguer, became the new President; a new Cabinet was formed; and rumors were circulated that Trujillo might soon retire from politics and leave the country.

[74] *New York Times*, September 30, 1960.
[75] Morrison (fn. 5), 130-32; *New York Times*, September 23, 1961.
[76] *New York Times*, April 27, and August 24 and 31, 1960. The Dominican Communist Party was legalized in April 1960. In August 1960, Soviet agents were reported to be in the Dominican Republic for trade talks.

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The United States had not achieved a genuine liberalization of the Trujillo regime by May 30, 1961. On that date, the dictator's assassination brought his thirty-year rule to an end. There was some speculation that the CIA had played a role in the assassination; it is probably safe to assume that the Administration knew of the plot and did not object. More direct U.S. participation is possible but less likely.[77] Better relations with the United States might have been one motive behind the plotters' action, but the conspirators' main aims were probably a desire to rid the country of Trujillo's tyranny and to avenge atrocities committed by his regime.

After the assassination, the goals of U.S. policy shifted to the elimination of the power of the Trujillo family and its supporters, and to guiding Dominican political events toward the creation of a more democratic and stable government. In the weeks immediately following the assassination, the United States adopted a cautious attitude toward President Balaguer's efforts to improve his regime's image. He declared guarantees of human rights and announced that elections would be held in May of 1962. These and other similar announcements tended to coincide with visits by members of various O.A.S. organs to investigate conditions in the Dominican Republic.[78] In a speech at the United Nations, Balaguer condemned Trujillo, promised personal freedoms, announced that he would cooperate with the United Nations Commission on Human Rights and the Inter-American Commission on Human Rights, and pleaded for an end to economic coercion.[79]

The U.S. Administration reviewed the situation in September 1961 and decided to continue economic coercion while stepping up diplomatic pressure to force the Trujillo family and their key supporters out of the country. Observers from the United States and the O.A.S. had ascertained that a broad cross section of the Dominican people wanted economic coercion to be continued until a more democratic government was assured.[80]

On September 21, 1961, President Balaguer made an effort to satisfy U.S. demands for democratization by offering to enter into a coalition with opposition parties. The latter rejected this suggestion, insisting that members of the Trujillo family should first leave the country. Balaguer's efforts angered the Trujillo family and their military allies, who put pressure on him to end his gestures of liberalization. Fearing a coup d'état against Balaguer, the United States tried to relieve some

[77] Slater (fn. 5), 214, n. 24.
[78] *New York Times*, September 21, 1961; Morrison (fn. 5), 129-41.
[79] United Nations General Assembly, *Official Records* (16th session), 1021st plenary meeting, October 2, 1961, pp. 183-86.
[80] Morrison (fn. 5), 130-41.

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of the pressure on him by hinting that the ban on shipments of trucks, spare parts, and petroleum products might soon be lifted. The cooperation of the military and the opposition parties was essential for an orderly transition to democracy.[81] The suggestion that economic coercion be partially lifted was quickly denounced by the opposition, who insisted on the maintenance of all trade restrictions until a satisfactory political settlement had been reached.

In October 1961 the United States engaged in intensive behind-the-scenes negotiations to persuade two of Trujillo's brothers to leave the country. These efforts succeeded; by November 1, 1961, they and many other Trujillo relatives had left the Dominican Republic. Their departure made possible the beginning of serious efforts to form a coalition government which could rule until elections were held.[82]

The return of the two Trujillo brothers to the Dominican Republic on November 15, 1961, caused a major crisis. For two days a power struggle raged as the Trujillo brothers, with some military backing, tried to take power from Balaguer. The United States immediately sent destroyers within view of the Dominican coast and issued a statement warning that Marines might be landed. This gave Balaguer strong diplomatic backing and put the Trujillo faction on notice to depart immediately or face military intervention by the United States; it was an important element in the decision of segments of the Dominican armed forces to support Balaguer at this critical moment. On November 18, 1961, Rafael Trujillo, Jr. resigned as chief of the armed forces and left the country, followed on November 20 by his two uncles.[83] In this instance, economic pressure alone could not have prevented the attempted takeover.

After the November crisis, U.S. policy was aligned more directly with the opposition parties. The United States engaged in intensive diplomatic efforts to bring about a broad-based transitional government to replace President Balaguer until elections could be held. During these negotiations, Balaguer, with strong military support, argued that he should remain in office until the elections. The opposition insisted on his immediate resignation.[84] An eleven-day general strike occurred in support of the latter view: Although Balaguer had stood firm against the Trujillos' attempted coup d'état in November, most Dominicans remembered his long years of service to the Trujillo family.

Throughout the negotiations, U.S. warships remained off the Do-

[81] *New York Times*, September 23 and October 27, 1961.
[82] Morrison (fn. 5), 145-48.
[83] *New York Times*, November 18, 19, and 22, 1961.
[84] *New York Times*, November 28, 1961.

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minican coast, acting as a "tranquilizer" by reminding all factions that U.S. Marines could be landed at any moment. Although U.S. representatives used the promise of large future sugar quotas as leverage in these negotiations, trade restraints were maintained during these talks, and the United States made it clear that they would remain in effect until all parties had agreed on a settlement.[85]

On December 19, 1961, all parties finally agreed to create a Council of State, over which Balaguer would initially preside, to govern until elections could be held on December 20, 1962. The opposition accepted this solution on the assumption that Balaguer would keep his promise to resign as soon as economic coercion was lifted, and turn the leadership of the Council of State over to its Vice President, Rafael Bonnelly, who was respected by most Dominican political factions.[86] The U.S. Administration had supported the opposition parties against Balaguer in these negotiations in the belief that an orderly transition to democracy required a change in the existing power structure. By taking this position, it incurred the hostility of the Chief of the Armed Forces, Major General Pedro Rodriguez Echavarria, who supported Balaguer.[87]

The Council of State took office on January 1, 1962, with Balaguer as its presiding officer. On January 4 the O.A.S. voted to lift the economic sanctions which it had applied against the Dominican Republic. On January 6 the United States resumed full diplomatic relations with the Dominican Republic, and on the following day a mission arrived from the U.S. Agency for International Development. On January 9 the U.S. Department of Agriculture announced that 315,987 tons would be reassigned to the Dominican Republic from the Cuban sugar quota for the first half of 1962.[88]

As January progressed, Balaguer delayed his resignation, thus creating unrest among the opposition political factions. On January 17, Major General Rodriguez Echavarria staged a coup d'état by arresting several of the members of the Council of State. He had waited until economic coercion had been ended and the U.S. fleet had gone. The coup d'état was countered by a general strike and immediate U.S. threats to withdraw economic aid, sugar quotas, and diplomatic relations. The United States made clear that it would not permit the success of the coup d'état. Balaguer resigned, and the situation was resolved on January 18, when another military faction staged a countercoup, arresting Rodriguez Echavarria and releasing members of the

[85] *New York Times*, December 1 and 5, 1961.
[86] *New York Times*, December 17, 19, and 20, 1961.
[87] Slater (fn. 5), 281-82; *New York Times*, November 30, 1961.
[88] *New York Times*, January 10, 1962.

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Council of State. U.S. hopes for democracy owed much to the willingness of this military faction to act in support of the Council of State. A desire for good diplomatic and economic relations with the United States may have been one of their motives.[89]

By January 20, 1962, the Council of State, with Rafael Bonnelly presiding, was in control of the country. On the same day, the United States announced the granting of a loan of $25,000,000 to help the Dominican balance of payments. Complete commercial relations were restored on January 29, when the Commerce Department ended trade restrictions on petroleum products, trucks, and spare parts.

In December 1962, the election of Juan Bosch seemed to mark the achievement of the policy goals sought by the United States in the Dominican Republic since 1960. The victory was short-lived, however: within seven months a military coup d'état brought Bosch's government to an end.

Economic coercion was one important element leading to the brief success of U.S. policy in the Dominican Republic in the period 1960–1962. However, military threats and intense diplomatic activity were an equally essential part of the American efforts to guide Dominican political events in the desired directions. By blocking increased Dominican sugar sales in the U.S. market, the policy of economic coercion denied the already depressed Dominican economy access to one possible road to recovery. Economic coercion also gave U.S. diplomats leverage during negotiations with various Dominican political factions: U.S. negotiators could threaten to continue trade limitations or promise large future sugar quotas in exchange for desired actions. In the absence of complementary military pressures, however, it is unlikely that economic coercion alone could have dealt with the two attempted coups d'état.

The experience of U.S. economic coercion against Cuba and the Dominican Republic suggests the limits of this type of activity as a tool of foreign policy. Its effectiveness may well depend on the support of diplomatic and military pressure.

It is mainly its symbolic function that makes economic coercion a tempting policy to governments. Regardless of its concrete impact on the target state, a government may consider economic coercion useful if it serves to declare its position to internal and external publics, or helps to win support at home or abroad. As long as economic coercion can serve such primarily symbolic functions, governments will no doubt continue to use it as a tool of foreign policy.

[89] *New York Times*, January 18, 1962; *Keesing's*, February 3-10, 1962, pp. 18577-78.

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THE HUNGARIAN ECONOMIC REFORM

By DAVID GRANICK*

I

THE Hungarian economic reform was introduced in the beginning of 1968. It clearly represents the most radical postwar change, in the economic system of any COMECON country, which has been maintained over a period of years and gives promise of continuity. It has rightly been heralded as a major shift to decentralization, since centralized physical planning of the activities of enterprises was essentially ended with its introduction. But a study of the new economic mechanism's functioning at the enterprise level, three years after its introduction, suggests a somewhat different interpretation of the reform from the ones most commonly given.

The first interpretation widely offered in the West was that the reform represented a *de facto* renunciation of central planning, limited only by the political constraints that are binding on a country allied to the Soviet Union. While it is of course problematic where a change in system will eventually lead, this first interpretation seems to me to have so far been demonstrably incorrect.

A second, more moderate interpretation was that the reform constituted the introduction of a clearly more efficient system for the satisfaction of broad, centrally determined goals than that previously in force in Hungary and elsewhere in COMECON countries.

The argument for increased efficiency was advanced primarily on the basis of the superior information available in decentralized operations compared to closely coordinated centralized administrative procedures. The expectation was that such improved information, combined with freedom to act and better incentives at the enterprise level, would provide new possibilities for the economy. This second interpretation seems more worthy of attention and serves as the focus of this article. In evaluating it, I will place considerable stress upon the policy

* Interviews in Hungary were conducted in early 1971 under an exchange program between the International Research and Exchanges Board and the Hungarian Institute for Cultural Relations with Foreign Countries. This work was part of a project sponsored by the International Development Research Center of Indiana University on comparisons of industrial management among East European socialist countries. Additional financial support was provided by the American Philosophical Society and the International Studies and Programs Office, University of Wisconsin.

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constraints common to all COMECON countries within which the reform has had to function.

Part II of this article outlines the key aspects of the Hungarian reform. Part III presents the policy constraints within which the new system has had to function, and the effects of these constraints on its operation. Part IV discusses the system with regard to information and incentives. Part V treats the historical record of the new system during the years 1968–1970. Part VI discusses future prospects and the likelihood of adoption of the system in other socialist countries.

II

The Hungarian reform has been predicated on the proposition that the major lines of structural development and income distribution should be planned by the central governmental and Communist Party authorities, but that a market system should be created which would permit decentralized determination as to how to flesh out these bare bones. To vulgarize only slightly, the main lines of distribution of disposable income as between major occupational and income groups were held to be relevant to the central planners; not so the particular market basket of consumer goods which was to be supplied in exchange for income. Total fixed investment in the economy, and the share to be directed to a few specific growth sectors that were to provide much of the dynamism for the economy and to major areas of social investment such as housing, were to concern the central authorities; but the distribution of the remainder of investment was to be determined by market forces. In short, the central planning mechanism was to free itself from the details of the economy which determine neither the structure nor the pace of its broad development.

No COMECON country has a central planning system which prescribes plans that are binding on individual consumers and employees. The Hungarian reform established symmetry by eliminating specific plans for state enterprises, both as purchasers and suppliers on the commodity market and as purchasers on the labor market. Although plans are established for industrial ministries and sub-branches, they have no binding directive force; they are intended only to be a guide to moral suasion and to the granting of financial stimulants such as subsidies, tax rebates, cheap credits, and access to long-term bank loans. Along with the elimination of production plans for enterprises goes the virtual elimination of allocation of materials to firms.

In principle, the Hungarian reformers opted for a system of free

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prices which can respond to market conditions. In practice—essentially because of the need for controlling inflation rather than as a means of exercising central direction—a high proportion of prices have been frozen. However, as a prelude to the introduction of the new mechanism, there had been a major restructuring of the frozen prices, so that these would reflect full average costs plus a return on capital, differentiated by branch roughly according to expected investment needs in the intermediate future. Thus, even the large portion of prices that remains frozen is as reflective of actual scarcities as any system of fixed prices can be.

Although bank financing of investment has expanded much less than had been hoped, it is clear that the use of decentralized investment sources has become extremely important. In 1970, close to two-thirds of the gross fixed investment in manufacturing was financed by the enterprises themselves.[1] It is true that much of this was tied to specific projects approved by the authorities: budgetary grants and bank loans are conditional on the use of a company's own funds as supplementary financial resources for such projects. Nevertheless, it is clear that manufacturing enterprises have become extremely important in deciding in which products to invest, and with what technology. This phenomenon implies a significant linkage between the development of manufacturing capacity and the perception of future market conditions.

Finally, a strong effort has been made to tie the activities of the producing enterprises to the world market. Instead of receiving payment for exports according to Hungarian internal prices, as was formerly the case, firms are now paid the equivalent in Hungarian currency of the foreign currency they earn (at non-official but uniform rates). The new system of payments for exports is intended to encourage enterprises to concern themselves with foreign markets and with improving the quality of goods and services provided to foreign customers, since they themselves gain financially as a consequence of higher prices. Considerable progress has also been made in eliminating import restrictions, especially on raw materials and semi-finished products, and imports are purchased at the same exchange rate as exports.

III

The new mechanism has had to function within a set of policy constraints applied in all COMECON countries. The critical constraints

[1] A Hungarian informant is the source for this. Other Hungarians put the figure a good deal lower, but I do not believe that they are as well informed on this matter.

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which are relevant to the subsequent argument appear to be the following:

1. The rate of open unemployment (including frictional unemployment) which can be tolerated is considerably lower than that accepted as a government policy-objective in capitalist countries.

2. Little pressure may be placed on individual workers or managers either to change their place of work or to alter the skills they use in their given factory. Even when other jobs are readily available at comparable pay in the same town, individual workers may not be forced to find new work because their old positions are disappearing. Although, of course, grossly inefficient parts of factories may be closed down or radically altered, the emphasis is upon doing this only very gradually.

3. Rapid increases in consumer prices are considered politically unacceptable. One Hungarian leader, while doubtlessly exaggerating, suggested to me that the entire reform might be abolished if the cost of living were to rise at even three per cent per annum.

4. In the case of Hungary, there is an additional constraint: There may be no rapid change of management in the enterprises; the new system must be operated by the same directors who had previously worked under traditional centralized directives. Clearly, the objective of this contraint is to avoid the creation of a powerful political group that would have a strong interest in reversing the reforms.

The first two constraints may be construed as a specialized interpretation of the notion that a socialist country is a workers' state. Workers are to be protected as much as possible from the forced adjustments to changing product demands and technology that are their fate in capitalist economies. If they must pay the price of slower improvements in labor productivity and living standards than could otherwise be attained, this is regarded as unfortunate but in the last analysis acceptable. Security is the name of the game.

But such security can only be provided by maintaining a ready market for the goods of virtually all enterprises. This implies that an excess of demand over supply at existing price levels is needed for virtually all groups of products. If there were no more than equilibrium, many individual companies would inevitably find themselves unable to maintain their production in the face of attempted expansion by more efficient producers. Prices must therefore either be kept below their equilibrium level, or differential subsidies must be granted to permit marginal firms to maintain their stability. In fact, both approaches are widely used in the Hungarian economy.

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It follows from this argument that the "sellers' market" which exists in all of the COMECON countries, including Hungary,[2] is not a product of the high rate of investment planned in these lands. A high rate of investment may exacerbate the situation, but nothing more. The sellers' market is not simply the unmitigated evil which it is generally regarded to be in Hungary, but a necessary condition for meeting the employment constraint which is imposed by political and social forces.[3]

The constraint as to acceptable inflation rates, accentuated by the government's desire to improve the availability of goods on the consumer market at existing price levels, has caused the Hungarian central planners to follow an extremely cautious policy of wage restraint. Any example of substantial wage increases in some individual enterprises would be very difficult to resist by other firms, particularly since the tight labor market and high rate of labor turnover would lead to substantial net losses of manpower in the lagging enterprises. Given the existence of a complex subsidy and tax-rebate system, the government would be unable to resist the political pressure to provide the financial wherewithal to make similar wage increases possible elsewhere. Thus, any unusual wage increases would threaten a cost-push inflation throughout the economy.

Reluctantly but inevitably the Hungarian Government has responded to this situation by placing tight limitations on the percentage increases in average total compensation which may be provided by individual enterprises to their employees. In 1971, when the regulations were more flexible than in any previous year of the reform, an average company that increased its profits was able to expand its average net compensation (including end-of-year distributions) by only about 5 per cent

[2] See János Kornai in *Közgadasagi Szemle*, No. 1, 1971. This has been translated as Working Paper No. 7 of the International Development Research Center of Indiana University.

[3] One may indeed argue, as is customarily done, that it is the high rate of investment which strains the economy and leads to a sellers' market. Total net domestic investment, measured in 1968 prices, was 20% to 24% of net national product during 1968–70. Központi Statisztikai Hivatal, *Statisztikai Evkönyv 1970* [Statistical Yearbook] (Budapest 1971), 68-69. But if this be considered high enough to lead to such pressures on investment inputs, one is left with the need for additional explanations for the pressure on consumer goods. Certainly one can find reasons for this as well. Cf. for example Kornai's treatment (fn. 2) of four distinct causal factors for a sellers' market; he leans most heavily on a variant of the over-investment argument. But the explanation offered in the text as the dominant one has the clear attraction inherent in the principle of Occam's razor.

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of its total increase in pre-tax profits plus increase in wages.[4] The result of this restrictionist policy, combined with an interventionist governmental fiscal policy at the individual enterprise level which will be described below, has been that non-managerial personnel have had extremely little incentive to accept changes in work practices that would improve the profitability of their firms. The motivational problem has been widely recognized, but there has been little that the authorities could do about it within the restrictions under which they work.

The constraint concerning any rapid turnover of managers, while reasonable enough in the light of the dangers of creating a political opposition, has done more than simply prevent the rapid selection of new managers who are more capable of performing effectively under the new decentralized conditions. It has also eliminated the possibility of creating a major incentive, namely, the significant likelihood of superior or inferior performance being followed by rapid promotion or demotion. Managerial incentives have had to be limited to profit-sharing bonuses, high compensation relative to the average for the enterprise, and the traditional social and professional stimulants. Nothing further has been available.

In the first year of the reform, senior managerial personnel in Hungary were promised bonuses linked to their companies' profits which could amount—for the entire senior management of a given enterprise—to 80 per cent of their combined basic salary. But sharp protests by the workers necessitated the withdrawal of this measure; instead, managerial bonuses were mainly incorporated into salaries. Thus, incentives in the form of managerial incomes that fluctuate sharply with the success of an enterprise proved to be only a temporary feature of the reform.

The main direction of income change under the reform has been a sharp increase in the earnings of top managers.[5] From a small sample of units for which I was able to collect data in 1970–71, we can see that—following this change—the average ratio of the total earnings of enterprise directors to that of experienced graduate engineers in non-managerial posts in the same company in Hungary was

[4] The 5% figure is calculated on the assumption that the entire compensation increase is given in the form of higher wages, and that wages are increased by the same percentage as that of the increase in the sum of wages plus pre-tax profits.

[5] All Hungarian informants are in agreement as to this increase, which occurred first in 1968 as a result of high bonuses for top management. There are, however, no figures as to amounts.

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125 to 150 per cent as high as in the German Democratic Republic, and still higher when compared with Romania or Slovenia.[6] There can be no doubt that this differential in earnings would provide a major incentive for managers at all levels to perform in such a way as to be promoted or at least to avoid demotion, if it were not for the constraint on large-scale demotion of managers. As it stands, however, it seems probable that this income differential provides little incentive.

To sum up, the constraints under which the Hungarian reform has had to operate have had two major negative effects. The first is that the economy has continued to suffer from a sellers' market. The second is that little incentive for superior performance has been provided either to an enterprise's total personnel or to its top managerial staff. Clearly, these are serious barriers to the successful functioning of a decentralized market socialist system.

In addition, it should be noted that the size of Hungarian enterprises is somewhat atypical among those of socialist countries. Just as enterprises in the G.D.R. and Romania were grouped into *Kombinate* and *centrale* during the late 1960's and early 1970's, so the Hungarian firms (mostly individual plants) had been grouped into larger enterprises during the first half of the 1960's. The former firms lost their identities, and the new enterprises are the units which have been given the independence described earlier. The reform has brought no perceptible change in the internal managerial relationships of these large enterprises.

The reform has also accepted the existing size distribution of companies. At the end of 1970, there were only 812 industrial state enterprises in the country, with an average of 7.0 plants per enterprise. Two hundred ninety-one enterprises (including industrial cooperatives) employed 74 per cent of the country's industrial labor force.[7] These figures have two critical implications.

The first is that the market situation in virtually all sectors is strongly oligopolistic. This is so not only because of the restricted size of the home market and the sharp limits on competition from abroad (limits that must be retained for reasons of foreign exchange), but also because of the historic tendency of the individual firms to be quite specialized within a limited product-segment of their own branch of industry. One result is that prices must inevitably be severely controlled, either

[6] Since Hungarian enterprises are rather large by the standards of other socialist countries, the counterpart to the enterprise director in Hungary is considered to be the director of a *Kombinat* in the G.D.R. or of a *centrala* in Romania.

[7] *Statisztikai Evkönyv* 1970 (fn. 3), 171 and 174.

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by the producing firms or by central authorities. A second result is that, when central authorities interest themselves in the volume of output of specific product groups, they often have no choice but to direct themselves to individual firms. Both of these results place limits upon the extent to which a genuine market economy can exist.

The second implication is the ease with which central authorities can, by means of "moral suasion," intervene directly in the affairs of the enterprises. The industrial ministries, which are empowered to appoint and remove directors (although it is true that they have rarely used the latter power), only need to contact the relevant subgroup within a total population of 291 individuals in order to exercise direct administrative control over three-fourths of the country's industry. The temptation to do so must be overwhelming when central plans are in jeopardy. In fact, the industrial ministries were urged at the last Party Congress to use this power more freely.

Hungarian central authorities are not being arbitrary, or simply attempting to keep in their own hands the levers of central control, by refusing to break up these enterprises. Throughout Western Europe as well, the tendency has been to create large enterprises in the belief that technical progress is thus furthered. For Hungary in particular, the problem of management under the new conditions would be greatly magnified if the number of independent directors were multiplied several times over. Finally, decentralized investment out of the funds of the enterprises would be a hopelessly inefficient means of capital allocation if the enterprises were very small. The difference between the situation in Hungary and equally small West European countries lies not so much in the size of the enterprises as in the very weak role which foreign competition can be allowed to play in Hungary in easing the oligopolistic situation.

IV

A major element of the justification given for the Hungarian reform is the possible improvement in the quality of information available to decision-makers. This is due to the fact that Hungarian enterprises no longer receive centrally determined plans; instead, they make basic decisions at their own level without having to transmit information upward for more centralized directions.

It is indeed true that physical production and material-input decisions are now made at the enterprise level. But the financial "rules

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of the game" are heavily affected by centralized decisions that are directed at the individual firms.

In 1970, state subsidies to industry—quite aside from investment grants, and even after netting out an unknown amount of sales tax—equalled 57 per cent of the gross pre-tax profits earned by the enterprises.[8] In addition to these subsidies, various major tax exemptions are given to different firms, and some special taxes are imposed. Bank loans, which normally must be repaid from post-tax profits, are frequently granted to specific enterprises on the basis of future repayment from pre-tax profits. Finally, an increase in the price of many goods requires special governmental permission; and even for goods with "free prices," an enterprise must normally negotiate in order to be allowed to raise the average price of its products.[9]

In my view, the existence of such detailed financial *dirigisme* is not an arbitrary aberration from the principles of the reform. Rather, given the set of policy constraints described earlier, it is an inevitable substitute for physical planning. The constraints on employment would have been jeopardized by allowing enterprises to be placed under severe financial pressure by market conditions. Similarly, the constraint on inflation, combined with the sellers' market and the existence of government sectoral and regional investment plans, would make it inappropriate to permit the continued earning of "excess profits" by any major enterprise.

It is true that the Hungarian Government has tried to minimize the effect of these centralized financial actions on the decision-making process within the enterprises. To the extent possible, centralized financial decisions—concerning subsidies, for instance—are made for a five-year rather than a one-year period. Like other socialist countries, however, Hungary has found that such a policy is easier to promulgate than to execute. Similarly, some three-quarters of export-subsidy decisions are now applied to entire industrial sub-branches rather than to individual enterprises; but the high degree of monopoly and product specialization by individual firms makes this a feature of smaller importance than it might at first appear. Furthermore, in practice, Hungarian enterprises have been quite aware that high profits earned in one year will soon find their counterpart in a reduction of financial privileges—unless the management can persuade the authorities that

[8] *Ibid.*, 166.

[9] Such negotiations are often informal. But the national price board regularly negotiates as to changes—both in controlled and in "free" prices—with the enterprises which it regards as the price leaders of their industrial branches. Such negotiations appear to be carried on in all sectors of the economy.

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the extra profits should be left within the enterprise in order to finance additional investments.

According to the theory of the reform, enterprise managements were expected to make production, purchasing, and sales decisions in terms of their effects on profits. In practice, however, other criteria are also of major importance. They include not only some that are found in capitalist countries as well (e.g., rate of growth of sales and risk avoidance), but also some explicitly "social" criteria.

Thus, low-profit goods are produced in order to satisfy domestic demand even when the multi-product enterprises could readily use their capacity for the production of more profitable items. Decentralized investments are often similarly motivated. Enterprises which are classified as export firms will not divert production from capitalist markets to home sales, even where this would be much more profitable. One might even make a case for the somewhat extreme position that enterprises maximize such nonfinancial objectives, subject to the constraint of earning what are believed to be necessary profits. This practice, of course, places great additional pressure on Hungarian central authorities to provide a mix of subsidies, tax exemptions, low-cost loans, and price increases which will permit the enterprise to pursue such social objectives.

All of the above features of the Hungarian system lead one to wonder whether improvement of information has really been a net effect of the reforms. It is true that greater independence of enterprises works in this direction. But this effect may be more than counterbalanced by two other new features:

1. The key financial decisions are taken by a number of quite distinct inter-ministerial committees, each having jurisdiction over a specific source of financial privilege or extra burden. Consistency between these decisions seems much less likely now than in earlier years, when a single branch ministry had basic responsibility for all decisions affecting the firms within its particular industry. The necessity of providing correct information about each firm to each committee seems to be a deterioration from the pre-1968 system.

2. The political importance of an enterprise's chief executive officer seems to be even greater now than it was before the reform. Today, no single ministry has the authority to set priorities among all of the various company objectives, including the fuzzy "social" ones. The general manager of an enterprise must do this himself—and on the basis of what are presumably much poorer sources of information than his branch ministry possessed prior to 1968. The role of *local* Com-

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munist Party influence in industrial decisions may well be even stronger today than earlier, since a partial void has been created which was previously filled by the branch ministries. (One can only speculate on this point; it has proven impossible to obtain specific information.) Thus, contrary to the view commonly expressed in Western countries, it seems to me that the existence of improved information for decision-making must be regarded as an unsettled issue.

Earlier in this article, I argued that there is nothing in the Hungarian incentive system which provides a substantial stimulus for improvement. Two examples from firms which I visited will illustrate this.

The first relates to worker productivity. One plant, although it was unusually profitable in relation to its industry, showed evidence of considerable idleness of the labor force and of poor work-planning at the shopfloor level. Top management was willing to admit the existence of these conditions; one of its members hazarded the guess that labor productivity could be increased by 60-70 per cent without the purchase of any new equipment. However, since the provisions of the Hungarian tax law prevented any substantial increase in average wages in the plant, it was considered impossible to motivate the labor force to any greater effort. As a result, the plant was planning to effect a 35 per cent expansion in its output over the next five years purely through mechanization, which would entail an 87 per cent increase in the value of its fixed capital. No improvement in the workpace of the individual worker was expected.

A second example concerns the motivation of management itself. A major firm in an important consumer-goods industry produced a wide range of products on the basis of orders from the retail trade network. Firm and detailed orders had to be placed by customers as much as nine months before delivery—a practice which resulted in substantial losses to customers when consumer demand turned out to be for a different mix than had been predicted, and mark-down sales had to be resorted to in order to dispose of the goods. Since the prices for most of the firm's products were not determined by the authorities, I queried the commercial director as to why he did not accept orders for shorter delivery periods, but at substantially higher prices. Clearly, such a policy would have added to the profits both of the firm and of its customers.

The commercial director's response was that such a policy would doubtless be forced upon the company eventually, but that there was no point in the firm's initiating it: It would involve more complex production scheduling and a major effort of justifying the higher prices both to the national price board and to local organizations

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such as those of the trade union and the Party. Since the firm was already quite profitable, the resulting addition to post-tax profits and wages simply did not warrant the managerial effort involved.

A view sometimes expressed by responsible Hungarian sources is that the really important payoff from the reforms will occur only gradually as a result of the decentralization of investment. I noted earlier that in 1970 manufacturing enterprises financed an amount approaching two-thirds of their gross fixed investments from their own funds. Even when one takes into account the effect of tied loans and budgetary grants, it is safe to assume that not much less than half of gross fixed investment in manufacturing was in fact determined by the enterprise managements themselves. This situation contrasts sharply with the highly centralized nature of investment in the pre-reform years.

The expectation of various informed Hungarians—both within the enterprises and at higher levels—is that such decentralized decision-making will sharply improve the productivity of capital. Within individual enterprises, investments will be made in such a fashion as to eliminate production bottlenecks and to expand the output of the more profitable types of product mix. The reason for expecting an improved mix of investment decisions is that the length of the hierarchy through which such investment information must pass has been sharply reduced, compared to the pre-reform era; thus, decisions can be made both more effectively and more rapidly.

There is little doubt in my mind that the medium-term (e.g., five-year) results of such decentralization will be favorable. But the long-term results are less clear. Enterprises generating substantial cash flow have little practicable alternative except to reinvest these funds in activities in which they are already engaged. Since only very rudimentary steps have yet been taken to develop a capital market, the high degree of decentralization of investment may well serve as a major obstacle to the transfer of funds between different activities. In short, decentralization should be of major advantage in improving efficiency in the production of existing products and in changing relative capacities of different lines of products produced by a single firm. But it will also tend to reduce the feasibility of substantially altering relative capacities as between different sub-branches within manufacturing. The net benefit of such a policy over the longer run seems uncertain.

V

When one looks at the actual results achieved by the Hungarian reform during its first three years, one must conclude that, at best, it has

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had little of either a positive or negative immediate effect. Actually this is not at all a bad record; for one might well have expected deleterious short-term effects from a major change in the procedures by which economic decisions are made. But it does imply that a favorable evaluation of the reforms must rest on expectations as to their future effects rather than on demonstrated results.

Labor productivity in industry showed no improvement at all during the first two years of the reform. For the first three years (1968–70), it averaged little more than half of that achieved during the preceding five- or ten-year periods.[10] If one takes into account the reduction of the working week and the absence of growth in the annual amount of net completed fixed investment during the first two reform years,[11] and if one gives heavy emphasis to the record of 1970 on the basis that it represents the year of greatest adjustment of the economy to the reforms, the best one can possibly say is that the reforms *per se* did not reduce the growth of labor productivity below its normal rate.

Some Hungarians claim that the reforms are responsible for the national success in sharply increasing trade with the non-socialist countries. However, a comparison of foreign trade in 1970 with 1967 (using official Hungarian price deflators) shows that Hungary achieved much the same rate of growth of trade with both socialist and non-socialist countries.[12] Moreover, pre-reform trade figures had shown a somewhat faster growth of exchange with non-socialist than with socialist countries, and the reform years were ones in which business conditions in Western Europe were good; thus, non-socialist demand for Hungarian imports might have been expected to be unusually high. Therefore there is no reason to hold that, without the reforms, Hungarian trade with socialist countries would have expanded more rapidly than with non-socialist countries. Since the volume of trade with socialist countries is determined primarily by five-year and annual national agreements, it is difficult to believe that decentralization of foreign trade decisions in Hungary could have had any appreciable effect on the country's trade with its socialist partners. Thus it is difficult to credit the

[10] The unweighted average for 1968–70 was 2.7%, compared to 5.1% during 1961–67. *Ibid.*, 118.

[11] Completed fixed investment declined in 1968, and increased during 1969 by only 1% over 1967. On the other hand, in 1970 such investment rose to 133% of the 1967 level. *Ibid.*, 68-69.

[12] This increase was 35% for imports from socialist and 40% from non-socialist countries, and 28% and 31% respectively for exports to the two groups. However, if the period is extended by one year, 1971 being compared with 1967, the growth rates are reversed: tentative figures show 62% and 58% for imports, and 46% and 26% for exports. These figures have been calculated from *Statisztikai Havi Közlemények*, No. 2-3 (1972), 51 and 105.

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reforms with significant responsibility for Hungary's increase in trade with its Western partners.

A specific change that might have been expected to have a major effect on the Hungarian economy was the abolition of virtually all rationing of industrial materials very early in the reform.[13] Curiously, however, there are no indications to date that this change has had any result whatsoever except the reduction of paperwork. It is perfectly clear that there were none of the adjustment problems that might have been predicted as enterprises shifted to purchasing their materials on the market instead of receiving them through a centrally-planned allocation system. At the same time, none of the firms in which I conducted interviews had experienced, in the first three years, any of the improvement in their supply situation which could have been expected. The lead-time necessary between placing orders for materials and semi-fabricates and receiving shipments had not been reduced; similarly, enterprises found it no easier now than before the reform to subcontract out either maintenance work or the production of components.

The only clearly noticeable change in the three years of the reform has been a decided improvement in the position of consumers.[14] But it would not appear that this has had anything to do with the reforms *per se*; it represents a political decision of the Hungarian government to place greater emphasis on the meeting of immediate consumer needs. Improvement in the quality and mix of consumer products available seems to have been achieved essentially through imports from Western countries. The decision to raise the priority given to final consumers is one that was made simultaneously with that of introducing the reforms; it grew out of the same political context. But it could obviously have been made without the introduction of the reforms, just as the reforms could have been introduced without this accompanying policy decision.

Thus, in evaluating the contribution of the reforms to improved economic efficiency in Hungary, there is nothing positive in the three-year

[13] This process was not instantaneous. As of 1971, the principal allocations that were left were: (1) reservations of fixed quantities of seven categories of products for individual enterprises, the specific enterprises differing by product; (2) maximum or minimum quantities of eleven categories of items which were to be supplied to the trade network rather than to producers.

Space limitations prevent further development of the discussion of materials allocations.

[14] This has mainly been evident as an improvement in the quality and mix of consumer goods. However, the quantity of goods and services consumed also rose at an annual rate of 5.7%; this was much the same as during the two years prior to the reform, but compares very favorably with the rate of 3.9% for the longer period of 1961–67. *Statisztikai Evkönyv 1970* (fn. 3), 74-75.

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macro-economic record to which we can point with any degree of certainty. Rather, we are forced to consider only the "probable future results" of the major changes in the flow of information and in incentives which have been introduced.

VI

In evaluating the reform, there is one area of clear net advance in efficiency which was accomplished: the improvement in financial information concerning enterprises. Fixed prices for sales within the government sector (as opposed to sales to final consumers) were completely recalculated and placed on a basis of costs which include a return on capital and profits differentiated by the expected rate of future investment—i.e., they were made a fair proxy for long-term average prices in a capitalist economy. Fixed capital was also revalued so that depreciation charges might express underlying realities.

This pricing and costing reform was a necessary basis for a market system which was to have any chance of operating efficiently. But such information is almost as important for the efficient operation of a traditional planned economy. Virtually the same improvements in information are being made in the German Democratic Republic, where the objective is to improve the efficiency of the traditional physical planning system rather than to develop a socialist market economy.

Thus, this one indisputably valuable change in the Hungarian economic mechanism cannot be viewed as an index of differentiation between traditional and market socialist economies. It is no more than an important element of modernization which is valuable to both types of socialist economies.

What can be said concerning the likelihood of future adoption of the Hungarian system in other socialist economies? There is no question that many economists and administrators in the other COMECON countries are extremely interested in its development, and that they regard it as a promising experiment. But in view of what has been said earlier, it seems extremely unlikely that the economic results of the Hungarian reform will ever be great enough to demonstrate clearly that the system is either more or less efficient than that of its principal competing model—i.e., the system developed in the German Democratic Republic. Net results of the change will probably be small enough to be overshadowed by other factors in the economy that lead to a speeding up or slowing down of economic growth and efficiency.

It is quite possible that other socialist countries will follow the ex-

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ample of the Hungarian reforms; but they will not be able to make this decision on the basis of the demonstrated success or failure of the new Hungarian system. Rather, I feel that other socialist countries will have no basis except that of ideology on which to decide whether to follow the Hungarian model. Although traditional ideological considerations are opposed to their taking this path, one should not neglect the power of the equally strong ideological belief in "decentralization" which is widely held in all of these countries.[15]

In my opinion, the lack of significant success of the Hungarian reforms is unlikely to be reversed unless the system breaks out of the constraints which compel it to maintain a sellers' market. But this would involve the abandonment of the present system of extreme protection of the employment rights of Hungarian workers. Such an abandonment is certainly possible, but it would represent a fundamental change from the pattern which now exists in all COMECON countries and would substantially reduce the ideological attractiveness of the Hungarian reforms to the other countries.

[15] Considerations of space prevent the discussion of the political implications of the reforms and comparisons of Hungarian development with that in other socialist countries.

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Review Articles

INTERNATIONAL LAW AND POLITICAL BEHAVIOR:

Toward a Conceptual Liaison

By TOM J. FARER

Anthony A. D'Amato, *The Concept of Custom in International Law*. Ithaca, Cornell University Press, 1971, xiv, 286 pp., $9.50.

MOST international lawyers are committed to the belief that law, rather than being a mere fig leaf for the raw thrust of national power, is an independent variable exerting, in Tony D'Amato's apt phrase, a certain pressure on national decision-makers. This fraternal consensus fractures, however, as soon as discussion turns to the questions, what is the exact nature of the phenomenon generally called law which influences decision, and how or why does it achieve the asserted effect?

I. The Traditionalists

With respect to the former question, traditionalists accept, at least implicitly, H. L. A. Hart's description of any complete legal system as a union of primary and hierarchically-ordered secondary rules that are treated by the system's administrators as compelling guides to decision, and are generally obeyed by ordinary citizens.[1]

By primary rules Hart means a society's agglomeration of authoritative normative statements governing social behavior such as the prescriptions of criminal and tort law. By secondary rules he refers to the corpus of normative statements that communicate the means by which primary rules can be identified, applied, enforced, and changed. They are, in other words, rules about rules. Of these secondary rules the "Rule of Recognition" is necessarily preeminent in that only by recourse to it can we determine the legitimacy or authoritativeness of competing claims with respect to the existence, application, enforcement, or modification of both primary and other secondary rules.

If a given social system is sufficiently complex so that there is more

[1] See generally H. L. A. Hart, *The Concept of Law* (Oxford 1961).

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than one criterion for distinguishing authoritative norms from other kinds (e.g., rules of etiquette or moral standards), then the imperatives of order require that there be, within the Rule of Recognition, a further hierarchy culminating in a single ultimate criterion of legitimacy. Its existence assures, at least in principle, that every dispute about the law can be resolved definitively, since competing claims logically cannot enjoy equal validity.

For the traditionalists, "consent" is the ultimate criterion of the international legal system. Its claims to ascendancy have rested on both deductive and inductive grounds. Deductively, it is seen as a corollary of the doctrine of the legal equality of sovereigns that emerged after the Treaty of Westphalia to order the European political system. The imposition of rules—even by commanding majorities—is perceived to be inconsistent with equality, except where there is prior consent to accept the results of a "legislative" process. Inductively, the consent theory is based on recurring governmental manifestations of a ferocious insistence on a state's discretion to select ends, and means for their fulfillment, except where limitations have been assumed voluntarily.

Under the criterion of consent, most treaties were clearly "binding" or "valid" as express manifestations of the concordance of sovereign wills. Customary law was rationalized as a case of implicit consent.

Traditionalist scholars and governmental leaders both realized, no doubt, that an extreme consensual rationale for international law nullified the phenomenon's cardinal virtue: a capacity to lend greater stability to intergovernmental relations. It was therefore essential to interpret consent in such a way that it would not be perpetually susceptible to withdrawal at whim. This was accomplished by the dictum that states could consent to the relinquishment of their freedom to withdraw their consent. With respect to customary law, consent to relinquishment was presumed to coincide with initial consent to the rule in question.

By this means, customary rules were rendered obligatory. But before they could operate, they had to be identified. Consent being implicit, intermediate evidentiary criteria had to be developed in order to distinguish legal rules both from mere coincidence in state behavior and from relational norms which have not yet hardened into rights and duties.

Two such criteria have achieved wide scholarly recognition. In order to negate the danger of a rule being inferred from identical means of

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dealing with domestic problems, one criterion requires that the subject matter of any alleged rule must fall within the domain of international relations.[2] Thus, even if, for example, every nation-state were to eschew the death penalty, so long as the individualized deprivations employed to maintain domestic order are not perceived to raise issues of substantial international concern, a state might revert to capital punishment without fear of challenge.

The second criterion is, in theory, subjective: Concurrent practice is legally relevant only where it can be shown that the practice is motivated by the belief that it is legally *obligatory* or, in the more moderate articulation, that the practice is at least *consistent with* prevailing law (the so-called *opinio juris*).[3]

As a group, the traditionalists have not evinced a deep interest in the behavioral mechanism by means of which their perceived regime of rules has affected or governed the ultimate act of political decision. They seem to have regarded this problem as one raising essentially extra-legal questions best left to the political scientists. On the whole, therefore, they have been content to assert that states, as a consequence of their participation in the international legal order, are "obligated" to obey its rules.

Although the reference to obligation might be construed simply as a reference to a deductively necessary consequence of the hypothesized legal order or as a somewhat portentious manner of invoking alleged long-run self-interest in the face of each day's temptations to seize a unilateral advantage, it has in addition always carried the suggestion of moral adjuration. And, given the central role played by consent in the moral systems of most societies, the human tendency to transfer compelling moral perspectives to new contexts, and the fact that in the epoch of its inception international law was conceived to govern the relations between identifiable human sovereigns or small homogeneous elites connected by personal relationships, the attribution of moral significance to legally conforming behavior seems to have been ineluctable. It also was desirable in that it lent international law a certain compulsion beyond that engendered by the sanction of retaliation and the putative long-run advantage of preserving the integrity of a means for reducing provocation and facilitating cooperative interaction.

Every gain has its cost. By identifying consent as the fountainhead

[2] See, e.g., Judge Manley O. Hudson's formula for the derivation of a customary rule of law prepared at the request of the International Law Commission, in International Law Commission, *Yearbook*, II, 1950 (New York 1957), 26.

[3] *Ibid.*

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of international law, the traditionalists buttressed the latter's defenses. But in so doing they sacrificed, among other things, a fully developed—some would even say coherent—theory of legal change.

The main obstacle to coherence was the insistence on *opinio juris*. Professor D'Amato has sketched the concept's difficulties: "How indeed can [it] help to explain 'the emergence of a principle or rule of customary international law'. . . . Any new rule of customary law would be based on practice that by definition could not be 'required by' or 'consistent with' prior law. More importantly, [the] formula cannot explain how existing laws could change, for a change in the law would again by definition be based on practice that was *not* 'consistent with' prevailing law" (p. 8).

When a theory of law cannot provide a completely intelligible account of change in the content of legal norms, one may entertain doubt about either the efficacy of the theory or the reality of the order it purports to describe. There are observers who have inclined towards the latter alternative, seeing the international legal system as a system *manqué*, lacking developed rules of change and, by implication, wholly realized criteria of recognition. But most academicians have conceded the inadequacy of theory. Some have coped with that concession by exploring alternative strategies of explanation, including in at least two instances the bizarre proposal that the initial momentum of a developing customary rule must originate in a government's *erroneous* belief that a certain practice is already obligatory. Others, noting that despite conceptual inadequacies, courts and governments use, in varying combinations and emphases, the postulated elements of customary law in making claims and deciding cases, have discounted the importance of an entirely coherent theory. It is sufficient, they imply, simply to note that for a variety of "extra-legal" reasons, both verbal support for and behavioral consistency with a given norm will sometimes flag until it is demonstrably replaced by a new norm commanding respect at the levels of rhetoric and deed.

II. The Yale School

In the early decades of this century, while the mandarins of international law were fretting over the inelegance of their postulates, a small pugnacious group of American legal philosophers concerned primarily with domestic legal phenomena were laying the foundations for a massive assault on the verities of international law. Launching themselves from Holmes's dictum that law is merely a prediction of what the courts will do, these "realists" derided the capacity of norms

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either to predict or explain decision and insisted that the main subject of scholarly attention must be the entire value-allocative process. Through their persistence, law found itself being dragged from the serene realm of language into the grubby republic of human behavior.

As a great center of legal realism and of its sibling, the behavioral school of political science, Yale was a natural incubator for the two great bulls, Harold Lasswell and Myres McDougal, who some two decades ago plunged into the china shop of international legal thought and began smashing up the carefully husbanded piles of conventional wisdom.[4]

Where the traditionalists have always conceived their function to be that of identifying norms and measuring state conduct against them, Lasswell and McDougal claim a more ambitious vocation for international lawyers, namely that of maximizing the rationality of authoritative decision. Law properly understood is for them a policy science, the practitioners of which play vizier to a nation's sultans. In essence, their declared function is to clarify the decision-makers' value preferences and, by analyzing in light of decisional trends the relevant facets of particular decisional contexts, to predict the value-allocative consequences of the behavioral choices open to national leaders at any given time.

Rules are reduced to receptacles of useful information, mere summaries of past decisional trends. As such they suggest, with varying degrees of accuracy, the expectations of relevant audiences concerning behavior and their attitudes towards authority. In this capacity, rules, like other kinds of data, might influence decision;[5] but being nakedly instrumental, they can hardly command it.

[4] The principal published works of the Yale School of International Law are as follows:

Myres S. McDougal and Associates, *Studies in World Public Order* (New Haven 1960); McDougal and Florentino P. Feliciano, *Law and Minimum World Public Order* (New Haven 1961); McDougal and William T. Burke, *The Public Order of the Oceans* (New Haven 1962); McDougal, Harold D. Lasswell, and Ivan A. Vlasic, *Law and Public Order in Space* (New Haven 1963); McDougal, Lasswell, and James C. Miller, *The Interpretation of Agreements and World Public Order: Principles of Content and Procedure* (New Haven 1967). For other books reflecting the Yale approach, see Lasswell and Abraham Kaplan, *Power and Society* (New Haven 1950); Douglas M. Johnston, *The International Law of Fisheries: A Framework for Policy-Oriented Inquiries* (New Haven 1965); B. F. Murty, *The Ideological Instrument of Coercion and World Public Order* (New Haven 1967); W. Michael Reisman, *Nullity and Revision: The Review and Enforcement of International Judgments and Awards* (New Haven 1971).

[5] "The realistic function of . . . rules, considered as a whole, is, accordingly, not mechanically to dictate specific decision but to guide the attention of decision-makers to significant variable factors in typical recurring contexts of decision, to serve as summary indices to relevant crystallized community expectations, and, hence, to permit creative and adaptive, instead of arbitrary and irrational, decisions." McDougal, *Law and Minimum World Public Order* (fn. 4), 57.

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If rules are only data, where then can one find the "law"? It consists, Lasswell and McDougal conclude, in the convergence of perspectives of authority and expectations of control.[6] *Authority*, according to Michael Reisman, a leading disciple of the Yale masters, "is a set of conditioned subjectivities shared by relevant members of a group; when operative, when tripped so to speak by outside events, these subjectivities provide the individuals concerned with an indication of appropriate behavior. Authority can be considered a significant determinant of individual or group behavior, not necessarily when it compels a certain course, but when it indicates that course with a degree of clarity sufficient to excite internal tension or psychic dysphoria if an incompatible course is followed."[7]

Control, he writes, "refers to resources that can be employed to secure a desired pattern of behavior in others."[8] By itself, control is, in other words, raw power.

This and comparable definitions employed by the Yale School—e.g., "Lawful decision must be both authoritative and controlling" and "Law is a delicate balance of authority and control"[9]—are not designed to suggest that prescriptions become "binding" or "legal" when they cross some magical threshold on the respective continua of a society's perceptions of authority and expectations of control. The point to remember is that for the McDougalites there is no brooding reality beyond those perceptions and expectations. "Law" is simply a summary reference to cases where the perceptions are fairly intense and uniform and the expectations rather high. Lawfulness thus becomes a question of degree.

Some may wonder why, having shaped a technical language to their special purposes, the Yale School's devotees have not abandoned the term "law" altogether, encrusted as it is with a plethora of traditionalist connotations. I suppose the answer is that, however they may deplore the term's ambiguity, they concede its continued puissance as a symbolic value in social relations. By invoking its name, they domesticate and thus encourage adoption of their methodology for decision-making

It may also be asked why, in light of McDougal's acknowledgment that the layman tends to equate law with authority alone,[10] followers of the Yale School insist on adding the factor of control. The answer lies in their conception of law as a guidance device for decision-makers and also, of course, for those affected by decision. By defining law or, more to the point "lawful decision," in terms of authority and

[6] See, e.g., McDougal and Associates, *Studies in World Public Order* (fn. 4), 169-70.
[7] Reisman (fn. 4), 4. [8] *Ibid.*, 5. [9] *Ibid.*, 172.
[10] McDougal and Associates, *Studies in World Public Order* (fn. 4), 167.

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control, they guide the decision-maker to a consideration of both factors. If he ignores the relevant audience's conception of the requisites of authoritative decision, he can anticipate resistance to the value allocation which the decision purports to effect and he may reduce the efficacy of subsequent efforts to clothe decision with authority. Similarly, decisions which comport fully with authority expectations but which will not be enforced—i.e., which are unsupported by the value allocations required to overcome anticipated resistance—also may reduce the efficacy of authority. Although, if asked, people will generally equate authority with law, this is so at least in part because of their subconscious expectation that authoritative decisions will be controlling. If this expectation is consistently disappointed, the perceived focus of authority will necessarily shift, probably after an extended period of uncertainty.

Once one accepts this account of what law is all about, customary law is stripped of that elusive quality which has frustrated the traditionalists. Since rules are not "binding" in any event, there is no reason to relate them to a particular source, such as consent, which could endow them with autonomous power. And one need no longer subscribe to an epistemology shaped by the need to prove the reality of an immaterial phenomenon. Every index of prevailing authority subjectivities and control perspectives may be recognized and employed. Authority and control may converge for a great variety of political, economic, social, and ideological reasons. They are the "sources" of the law.

III. The Practical Consequences of Theory?

Despite dramatic verbal dissimilarities between traditionalist and Yale-School conceptions, is it clear that the latter's account of the nature of law will frequently yield distinctive operational results? Consider, for instance, the question of whether there are customary rules of law governing the conduct of military operations in a civil war. During a recent discussion of war crimes in Vietnam, one distinguished traditionalist flatly denied the existence of a customary law of land and aerial warfare applicable to civil war. I imagine he would concede that most authoritative decision-makers and private individuals concerned with international affairs would be outraged and shocked if, for example, nuclear weapons were employed by either side in a civil conflict. I suspect he would also concede that outrage might well be backed up by various forms of deprivatory behavior such as the

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suspension of credit to purchase arms and delivery vehicles. However, his subsequent comments indicated that even if he were to accept the accuracy of these predictions about perceptions and expectations, he would still not be convinced of the existence of customary rules, apparently because one cannot point to any explicit concession by national governments that the restraints that have in fact been exhibited in various contemporary civil (and mixed civil-international) conflicts are occasioned by a feeling of legal obligation. Hence, however strongly one might, on grounds of prudence and morality, advise leaders against recourse to nuclear weapons by participants in a civil war, one could not maintain that they were under any legal restraint.

It is impossible to prove that this traditionalist's refusal to characterize proposed behavior as "illegal" would degrade his chances of dissuading the potential users of nuclear weapons or persuading other decision-makers to respond with effective sanctions. But there are reasons why it might, even if one discounts the word's symbolic force.

First, decision-making time always is limited. An advisor may not have the opportunity to elaborate his assessment of the international consequences of a proposed act. Reference to its illegality is a summary way of conveying the prediction of an intensely hostile response. Moreover, by fixing the decision-maker's attention on the question of international response, the legal advisor may gain a more extended hearing than he would with advice couched in moral terms. Finally, particularly in the matrix of crises, leaders may be responsive only to dramatic, categorical statements such as "your proposal is illegal."

A second reason relates to the problem of specialization in the advising function. Once the lawyer has opined that behavior is "legal," or at least not "illegal," decision-makers may feel that his utility is exhausted and may therefore deny him any opportunity to explore the range of reciprocal behavior that proposed action may generate. Yet, by training and disposition, the international lawyer may well be preeminently sensitive to the provocative and destabilizing nature of the planned behavior, for his work consists in large measure of anticipating governmental responses.

On the other hand, some foreign-policy decision-makers appear indifferent or even antagonistic to "legal" criticism of policy proposals. Perhaps this reaction is largely explicable in terms of the law's traditional association with morality, the popular foreign-policy decision-making style in many leading states being, after all, one of genteel amorality. If the Yale School's account of international law achieves widespread penetration of elite consciousness, this association of law

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with morality should be weakened and the informational features of law more fully appreciated.

Even assuming that the difference in perspective between my traditionalist professor and a behavioralist would lead to different conclusions about legality in the postulated case, I am not convinced that this difference flows inevitably from their respective jurisprudential commitments. As Professor D'Amato demonstrates, not all traditionalists impose such rigorous standards of proof on those who invoke the law. Traditionalists can be and often are more impressed with what states do than what they say. The truth is that, whether one seeks a quasi-mythical manifestation of consent or an ensemble of perceptions of authority and expectations of control, the primary problem remains epistemological.

IV. In Search of an Intermediate Posture

A number of younger scholars have attempted to stake out independent positions somewhere between the perceived polarities of the traditionalists and the Yale School. They are united, I believe, not by any comprehensive alternative account of international law but rather by shared misgivings about certain features of the Yale School's approach.

The main focus of their concern is McDougal's transformation and, in their mind, evisceration of the idea of a prescription.[11] Professor D'Amato, one of the abler among those who pay only qualified tribute to Yale, expresses that concern when he writes: "As H. L. A. Hart has demonstrated, it is central to the concept of law that the rules themselves are a *sufficient reason* for punishing one who disobeys them. On the other hand, Myres McDougal and his associates have maintained that international law is merely and solely a *process* of authoritative decision-making and that . . . rules are only helpful guides to possible policy alternatives, [guides which] 'exhaust their effective power when they guide a decision-maker to relevant factors and indicate presumptive weightings'" (p. 11; emphasis in original).

Unfortunately, the basis of Professor D'Amato's Hartian sympathies remains coyly veiled. Just prior to his invocation of Hart he asserts that "legal prescriptions indicate to man that which he ought to refrain from doing. In this latter usage as a prohibition and not a power, *legal rules communicate to the receiver the expectations of*

[11] For a luminously perceptive critique along these lines see Gidon Gottlieb, "The Conceptual World of the Yale School of International Law," *World Politics*, XXI (October 1968), 108-32.

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others (society, other nations) who might retaliate if he disobeys the prescriptions" (p. 11; emphasis added). That seems to mirror McDougal's contention that rules function as prohibitions only in the sense that they warn the receiver about the content of other people's demands, that is to say, their expectations and their probable willingness to defend them. Hence, the difference between McDougal and D'Amato seems reduced to the assertion that "rules themselves are a *sufficient reason* for punishing one who disobeys them."

Unless we can divine what he means by that proposition, it is impossible to test the accuracy of Professor D'Amato's contention that his adherence to it distinguishes him from the Yale School. Perhaps he is simply asserting that in the real world of international relations, legal rules evoke a subjective response which, prior to any calculation of the danger of retaliation or of the long-run national interest in a relatively stable order or any other conscious appraisal of the consequences of rule violation, inclines the receiver of an authoritative command to obedience. This reflexive reaction may be reinforced by, or may in part be an internalized expression of, the conscious calculation that, in general, the recognition of a body of authoritative norms is desirable and that there is consequently a presumption in favor of adherence. Both the reflex and the calculation will exert a certain pressure on the decision-making process. And even if they are not decisive, they may still affect the shape and dimension of the policy that is ultimately chosen.[12]

I am speculating, then, that Professor D'Amato is drawing a phenomenological distinction, a distinction between the scholar's perception and the operative perceptions of the men who govern the fate of nations—the former seeing rules as data banks, the latter seeing them first and perhaps primarily as prescriptions which in general ought to be obeyed.

Professor McDougal is, of course, aware of the tendency among international lawyers and political elites to think of legal rules as "binding" prescriptions. Although he hopes to eradicate that tendency, in part by educating lawyers and decision-makers to see the world as he does, he couches his briefs in the traditionalist terminology in deference to its continued existence. Hence, the shape of his polemical statements does not, as Professor D'Amato contends, "attest to a different view of 'law' " or rules than the one he openly espouses (p. 12), but

[12] Cf. Thomas Ehrlich, "The Measuring Line of Occasion," *Stanford Journal of International Studies*, III (June 1968), 27.

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rather evidences a firm grasp of the distinction Professor D'Amato appears to arrogate to himself. To be sure, the McDougalites do tend to equivocate. Sometimes they disparage a rule-oriented jurisprudence not primarily because it degrades the potential for value-maximizing decisions, but rather on the asserted grounds that, in practice, decisions are guided by value-oriented contextual assessments and not by verbal prescriptions. Since Professor D'Amato would concede that many decisions are not rule-governed, their respective positions cannot be distinguished in terms of a radically different perception of actual decision-making. Where they do differ is in their appraisals of the desirability of rule-directed decisions.

D'Amato believes (as I do) that McDougal's insistence on minimizing the guidance potential of verbal prescription[13] facilitates myopically chauvinistic decisions unresponsive to collective interests, and thus leads to obliteration of the line between legality and political expediency. Indeed, he seems to feel that, in large measure, McDougal himself has already abandoned the distinction between acts which are politically expedient and those which are legal. McDougal is alleged to have preserved little more than the extremely plastic criterion of "reasonableness," i.e., what is reasonable is therefore lawful (pp. 215-29), except perhaps in the case of highly detailed and recently ratified treaty obligations. My own reading of McDougal leads to the conclusion that there is, at least in his mind, a clear distinction between authoritative decision and decisions which are merely effective. A man who writes "Effective control . . . when it asserts decision, in the sense of imposition or threat of severe deprivation, without regard for community expectations about how and what decision should be taken, is not law but naked power or unilateral coercion"[14] is evidently sensitive to the distinction between community-sanctioned and -proscribed behavior. But, however clearly he may himself grasp the distinction, it remains perfectly possible that his jurisprudence obscures it for others.

The most interesting and important difference Professor D'Amato is trying to express concerns the possibility and desirability of promoting greater uniformity and hence predictability of decision by limiting

[13] Cf. Gottlieb (fn. 11), 116: "The principal intellectual weakness in the theory and practice of interpretation recommended by McDougal and his associates is their failure to conceive of legal language in rules and agreements as a device for the guidance of processes of inference leading to choices, decisions, judgments, and the like, rather than as a device for bringing subjective facts to the focus of attention of decision-makers."

[14] McDougal and Associates, *Studies in World Public Order* (fn. 4), 170.

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the variety of contextual factors that a decision-maker, functioning in a claim-conflict situation, should be encouraged to take into account. This is, I think, what is really at stake in D'Amato's insistence that his conception of rules is distinguishable from that of the Yale School.

One way of perceiving a primary rule is as a two-dimensional artifact consisting of a directive to behave in a specified way and a context with certain specified features. The ambiguity of rules is partially a function of their contextual dimension, for in the nature of things there will never be a context which contains only the specified features. Any human interaction is, after all, an extraordinarily complicated mosaic of tangible and intangible phenomena. The details of time and place and participants, and related past, present, and future interactions are effectively infinite. Considered in its fullest detail, every interaction is unique;[15] indeed, even if only a small number of its potentially describable features is considered, no interaction is like any other.

A world of unique events is stupefying. We are driven to act by a belief in the relationship of things; but there is no way to relate unique events. The problem has been summarized with customary brilliance by Edward Said, the Columbia University critic and philosopher. In an unpublished paper on the nature of norms, he refers to Edmund Burke's speech *On Conciliation with the Colonies* which

> is shot through with a powerful desire, at once moral and intellectual, to make the Parliament see everything . . . to present America as what he calls a whole object. . . . The anomalous and tragically conservative nature of Burke's effort is at once apparent when it is remarked that for Burke to have seen the whole meant always a consequent recommendation by him to withhold action. . . . He concedes everything to the solidity and particularity of an object, whose quiddity practically stultifies any action on it that one might take. . . . Burke . . . illustrates, in a particularly eloquent way . . . how thought that attempts to suit action to the *full* realities of a situation cannot stop until the realities overwhelm the possibility of action.

Rules are a means for reducing the overwhelming bulk of reality to socially useful proportions by attaching special significance to a few phenomena. If the phenomena are not present, the behavioral directive does not apply. But where they are, there may also be present phe-

[15] Cf. Alexis de Tocqueville, *Democracy in America*, P. Bradley, ed. (New York 1945), II, 13: "General ideas are no proof of the strength, but rather of the insufficiency of the human intellect; for there are in nature no beings exactly alike, no things precisely identical, no rules indiscriminately and alike applicable to several objects at once. The chief merit of general ideas is that they enable the human mind to pass a rapid judgment on a great many objects at once; but on the other hand, the notions they convey are never other than incomplete, and they always cause the mind to lose as much in accuracy as it gains in comprehensiveness."

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nomena identified as crucial by some other rule or by norms of greater generality, such as principles. Or there may be contextual features the importance of which is established by other types of rules, such as moral ones.

The contextual features included in a rule of law are selected on the assumption that where they are present, the demanded conduct will effect desired value outcomes. Therefore, a rule's capacity to influence decision deteriorates in cases where the presence of other, presumably unanticipated, contextual features defeats that assumption: that is to say, where the value outcome which the rule was presumably designed to achieve can be promoted more effectively by not behaving in the prescribed manner. Pressure to ignore the behavioral directive also is experienced when there is a change in the weighting of competing values. If, for example, states began to be more concerned with preventing major human-rights deprivations than with avoiding armed conflict, the rule inhibiting armed intervention for humanitarian purposes without U.N. authorization would gradually be reinterpreted, formally replaced, or ignored because of the pressure exerted by the shift in values.

As noted above, Professor McDougal's position is that decision-makers should treat rules only as items of evidence that can be more or less helpful in identifying the act or acquiescence which, in a given encounter between states, will maximize realization of the preferred values of the international community. A rule can almost never settle this problem in advance. The contextual features attached to the rule's directive were selected on the basis of experience with prior decisional contexts. Subsequent contexts will be different and, their potential variety being infinite, they will inevitably present many unanticipated configurations. In order to promote optimal value realization in every decisional context, decision-makers are urged to engage in elaborate contextual analysis using categories developed by Lasswell and McDougal to identify and organize features which enjoy recurring importance. Thus the participants, their objectives, strategies and resources, and the immediate and long-range consequences of decisional alternatives must be examined in light of the value outcome demanded by the consensus of the international community. Where the analysis does not yield one clearly-preferred outcome, in order (apparently) to balance anticipated egotistic decisions by antagonistic elites, the decision-maker may legitimately choose from among the behavioral candidates the one that best promotes his own value preferences.

Professor McDougal appears to concede that analysis can be fore-

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shortened by explicit agreement. Thus, when arguing for a broad contextual reading of the United Nations Charter's proscription of force except in cases of individual or collective self-defense "if an armed attack occurs against a Member of the United Nations," he notes that the provision does not read "if, *and only if*,"[16]—thus implying that the latter articulation would have precluded the interpretative posture he proposes. In effect, then, the Yale School seems to presume a mandate for an elaborate contextual analysis except in cases where it is explicitly rejected.

Perhaps Professor D'Amato is implying that we should reverse the presumptions, except perhaps in cases where contextual features are identified at a very high level of generality. It does not follow that contextual features other than those identified can never be taken into account. An intermediate position would emphasize a rebuttable presumption of applicability whenever the specified contextual features are identified, which could be overcome only by a clear showing that the value allocation which would be effected by following the directive would conflict grossly with community preferences manifested in other normative articulations such as widely recognized principles, widely ratified multilateral treaties, and so on.

Underlying this approach to the application of rules is the fear that the prophylactic value of primary rules will be lost if their content is not stabilized by secondary rules which rigorously systematize the mechanics of rule identification and interpretation. It is assumed that the pressures of a claim-conflict situation degrade each party's capacity to identify community demands and provide incentives to ignore those demands even when they can be identified with substantial accuracy. It is also assumed that the presumed consequences of flagrant disregard of community preferences exercise some measure of restraint. That restraint is diminished to the degree that accepted modes of interpretation facilitate diverse identifications of community demands. There is, therefore, a clear community interest in shaping rules that will encourage uniform identification of those demands. To achieve this end, the community must sacrifice the theoretical possibility of value optimalization in each decisional context.[17]

The two-dimensional conception of legal rules and the related presumption of contextual exclusivity described above is only one possible

[16] McDougal and Feliciano, *Law and Minimum World Public Order* (fn. 4), 237n.

[17] In this connection, see my critique of McDougal's and Feliciano's interpretation of Article 51 of the U. N. Charter: "Law and War," in Cyril E. Black and Richard A. Falk, eds., *The Future of the International Legal Order*, Vol. III, *Conflict Management* (Princeton 1971), 36-40.

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means to that end. Alternatively, one might conceive of rules as communications which can be decoded only by treating the prescription and the specified contextual features as an integrated index of community demands and expectations. In this view, the contextual features are not necessarily intended to be exclusive. Rather, in conjunction with the behavioral directive, they convey a legislative purpose from which the acts or omissions required in a given context can be inferred. It is assumed that at any given point in time a manifest core of intention is effectively communicated by particular associations of behavioral directives and contextual stipulations.

While this conception may encourage a freer inventory of contextual features than the two-dimensional alternative, it remains outside the Yale dispensation in that it still emphasizes the centrality of normative language as a guide to decision and insists that for each rule there are cases which fall clearly within its directives—that is to say, its manifest purpose—and hence can be characterized without the aid of an elaborate contextual analysis.

Even if the presumption theory were generally accepted as a means for stabilizing primary rules, its potential contribution to the reduction of normative indeterminacy obviously is limited to those cases in which a *recognized* rule is opposed by a claim for a concededly novel exception. If a rule emanates from a single source—for example, a legislative act in domestic society or a widely ratified multilateral treaty in its international counterpart—the distinction between an established rule and its novel qualification assumes an apprehendable form. One can then point realistically to a moment in time when the relevant community's consensus crystallized in a specific behavioral directive which, supported by the demand for stability, may enjoy a subsequent life of its own. But how often does this occur in the domain of international customary law? Today, radically altered means of communication and transportation, coupled with the uniquely menacing consequences of unbridled competition among nation-states, encourage and facilitate codification whenever a substantial international consensus emerges. An issue's consignment to the domain of customary law is not infrequently a sign of the failure to achieve consensus.[18] As a consequence, in a specific claim-conflict situation, the parties may adduce rules with identical contextual features but conflicting behavioral directives.

This case is the main concern of D'Amato's book. He proposes a methodology for identifying the authoritative rule (see particularly

[18] Alternatively, it may evidence belief that a consensus with respect to certain behavior is so solidly rooted and uniform that codification is unnecessary.

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pp. 73-102), a methodology which he asserts will promote uniformity. Under his theory, a credible identification of applicable law must rest on proof of both a "qualitative" and "quantitative" element. The qualitative element consists of the *articulation* of a rule alleged to be a rule of international law authorizing or compelling a certain act or acquiescence (pp. 74-87). The articulation gives a state notice that its actions or decisions will have legal implications.

The quantitative element consists of one or more acts that find their justification in the articulated rule, or abstentions in the face of acts so justified, by states with the requisite interest and capacity to resist them (pp. 87-98). No specific number of acts or abstentions is

> necessary to satisfy the material element of custom formation. . . . There is no international "constitution" specifying when acts become law. Rather, states resort to international law in claim-conflict situations. In such instances, counsel for either side will attempt to cite *as many acts as possible*. Thus we may say that persuasiveness in part depends upon the number of precedents (p. 91).
>
> . . .
>
> Two acts are significantly more persuasive than one, since in the third situation there would be no effective way of cancelling the rule by acting differently (p. 94).

It is clear from D'Amato's subsequent discussion that conflicting claims are to be resolved primarily by a grossly quantitative comparison. Two other factors are referenced, but in so casual a manner as to suggest their secondary or tertiary importance. One is temporal; more recent precedents may be more persuasive (p. 93). The other is the identity of the parties to the earlier precedents, where they are in conflict (pp. 96-98). Professor D'Amato suggests that the comparative legal sophistication of parties to different precedents, more than their relative power, may affect the precedental weight attributed to their behavior. Despite these refinements it certainly appears to be his position that after a few precedents (perhaps only two) have accumulated, the first subsequent deviation should be regarded as a violation of customary law. However, he says it is simultaneously a "disconfirmatory instance" which will facilitate future deviation. "The number of disconfirmatory acts required to replace the original rule is a function partly of the number of acts that established the original rule in the first place, the remoteness in time of the establishing act, the legal authoritativeness of the participating states, and other possible factors, including the argumentative skill of the proponent or opponent of a claim of custom. At any rate, the theory that has been suggested

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here allows for the smooth working of change in customary international law" (pp. 97-98).

Professor D'Amato's self-congratulatory claims are not entirely persuasive. One may doubt whether a rule which requires the first few deviations from earlier "precedents" to be deemed illegal "allows for the smooth working of change." In this respect, as in others, Professor D'Amato's approach does not differ significantly from (although it certainly helps to clarify) the traditionalist formulation which he purports to displace. The quantitative and qualitative factors he enumerates are well-established features of the traditionalist method for identifying legal rules.

D'Amato's assumption that conceptually his is a distinctly different approach apparently rests on the belief that under traditionalist theory there was no means of legitimately replacing the established rule because deviations, no matter how numerous, could never be "consistent with prevailing law" (p. 93). He concedes that no one in fact has ever asserted this, but suggests a tension between explicit theory and the implicit conception which has organized the vast body of traditionalist work—the conception that although initial deviations will probably be deemed illegal, as disconfirming instances multiply and as attendant claims of legitimacy are accepted, consent to a new normative dispensation becomes demonstrable.

Actually, there is nothing in traditionalist theory which requires all customary rules to begin life as criminals. Suppose over a period of years the vast majority of states verbally repudiated an established rule and announced their adherence to a new one, and on the first subsequent opportunity to fit deed to word, a state acted in accordance with the newly acclaimed norm. Must its first behavioral deviation be deemed a delinquency?

D'Amato's somewhat mechanistic reformulation of traditionalist theory may seem to require an affirmative response. Consequently, while aspiring to facilitate change and bring normative and behavioral reality into a more intimate relationship, he has introduced a rigid threshold of legitimacy which in certain circumstances could utterly divorce formal legitimacy from community perceptions of desirable behavior.

This ironic twist stems, I believe, from D'Amato's necessary ambivalence about the virtues of normative flexibility. There are obvious dangers for a system whose rules of recognition and legal change require behavioral norms to lag well behind the vectors of societal change. Political, economic, social, and moral forces will push against

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the law's restraints. Accommodation between conservatives and progressives will be impeded by the former's perception of every challenge to their position as a threat to the fundamental legal structure. Some measure of efficacy will be squeezed out of authority.

On the other hand, particularly in international society where the sense of community, at best exiguous, is constantly threatened by national egotism, there may be more than balancing advantages in skewing the legal order towards the perpetuation of an old consensus by placing a comparatively heavy burden of proof on those who proclaim a new one. This policy bias does not mandate the straitened epistemology employed by some traditionalists. Signs of a new consensus may be sought in every cranny of international life and by the application of the full technical resources of the behavioral sciences—resources so relentlessly extolled by Professor McDougal and his cohorts.

What finally distinguishes those who resist the gravitational pull of the Yale School is a commitment not to legal alchemy, but rather to a belief in the possibility of clarifying and contributing to the sustenance of consensus by the utilization of verbal prescription. This is one conservative faith that has yet to be extinguished.

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THE WORKING CLASS IN THE FUTURE OF THE THIRD WORLD

By RICHARD SANDBROOK

Robert H. Bates, *Unions, Parties, and Political Development: A Study of Mineworkers in Zambia*. New Haven and London, Yale University Press, 1971, 291 pp., $12.50.

Ian Clegg, *Workers' Self-Management in Algeria*. London, Allen Lane, The Penguin Press, 1971, 249 pp., £3.25; New York, Monthly Review Press, 1972, $8.95 ($2.95 paper).

Maurice Zeitlin, *Revolutionary Politics and the Cuban Working Class*, Expanded Edition. New York, Evanston, and London, Harper and Row, 1970. (First published by Princeton University Press, 1967.) 307 pp., $1.95 paper.

THE historical role of the working class has recently been subject to reassessment. Frequently repudiated are the Marxist views that the proletariat constitutes either, as Marx's and Engels' classic scheme would have it, *the* revolutionary social force in capitalist societies, or, as Lenin believed, the pre-eminent element in a revolutionary alliance with the poorest strata of the peasantry, or, finally, as Mao holds, the leadership cadres needed to mobilize the downtrodden peasant masses into conscious, revolutionary action. Consider, for instance, the meager role attributed to the working class in Barrington Moore's brilliant effort, in *Social Origins of Dictatorship and Democracy*,[1] to delineate three historical routes to modernity. Owing to Moore's concentration on the intricate coalitions and conflicts involving three social classes—the bourgeoisie, the landed aristocracy, and the peasantry—the proletariat almost disappears from view as a historical actor. Similarly, Eric Wolf, by lumping together as case studies of peasant wars the Mexican, Russian, Chinese, Vietnamese, Algerian, and Cuban revolutions in *Peasant Wars of the Twentieth Century*,[2] clearly indicates his assessment of the unimpressive revolutionary role of the working class. Probably Frantz Fanon has been most emphatic in dismissing the workers' revolutionary potential in the Third World. Not the workers but the poor peasants are, for Fanon, the wretched of the earth. The native proletariat, enjoying a privileged and well-remunerated position under colonial (and, by implication, neocolonial) rule, has everything to lose in a violent struggle for liberation. The peasantry, on the other

[1] Boston 1966.

[2] New York 1969.

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hand, having nothing to lose but its impoverishment and retaining a "stony pride" in the face of all indignities, represents the authentic revolutionary force.[3]

Writers without a radical commitment have also downgraded the historical role of the working class. For example, Clark Kerr and his associates, generalizing on the basis of a multiplicity of case studies carried out by a team of researchers around the world, have stated that "worker protest" is a diminishing rather than an increasing force as the "evolution of industrialization" unfolds.[4] One of their central points is that worker protest, left to itself, will be directed toward winning gradual, incremental advances in wages and working conditions. But worker protest, they feel, is seldom a matter for the workers only; this protest can be "owned" by various groups—the ruling élite as well as its opponents. Such outsiders as "revolutionary intellectuals" and "nationalist leaders" can, under certain conditions, channel the workers' grievances into a revolutionary movement. However, the conditions for class warfare are becoming increasingly exceptional, the exceptions including a "dynastic élite that does not adapt fast enough" and a "colonial regime that does not transfer power fast enough."[5] One reason why they forecast a decline in class conflict involving the workers is apparently that employers, owing to an enlightened sense of self-interest, will willingly grant concessions to their employees. Another reason seems more ominous in its implications: it is that élites have gained more experience in controlling worker protest. The authors observe, without demur, that workers' organizations have proved "quite receptive to the guidance involved in the development of consensus in an industrializing society, and even to more direct guidance by the élite through selection of goals and of men. Most labor organizations are, in fact, to one degree or another, a part of the established system."[6]

Are various writers correct in forecasting a fairly passive role for labor in the political and economic life of the underdeveloped countries? An attempt to answer such a question requires one to understand that the role played by the working class is an outcome of two factors: the existence and nature of working-class consciousness, and the power and aims of the social forces opposing and supporting working-class interests. One must first try to decide whether, in fact, a consciousness

[3] Fanon, *The Wretched of the Earth* (Harmondsworth 1963), 86 and 101.
[4] Clark Kerr, John T. Dunlop, Frederick H. Harbison, and Charles H. Myers, *Industrialism and Industrial Man: The Problems of Labor and Management in Economic Growth*, 2nd ed. (New York 1964), 187.
[5] *Ibid.*, 190.
[6] *Ibid.*, 190.

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of interests has emerged among working people—that is, whether a working class exists. In the absence of any survey of workers' attitudes and values, the researcher is forced to infer the existence and degree of class solidarity from the behavior of diverse groups of working people. This is a defensible procedure, but it has to be used cautiously if one's aim is to explain the role of the working class partly in terms of the consciousness it has achieved. One must be careful not to infer, for example, that a revolutionary consciousness exists because workers participate in radical actions. Since the original aim was to account for revolutionary collective action partly by reference to the creation of radical attitudes and orientation among workers, one cannot then use working-class behavior as an indicator of consciousness without constructing a circular argument. On the other hand, the mere existence of a certain type of consciousness among working people does not necessarily mean that they will play an active and autonomous part in their country's future. The opposing social forces, probably acting through the state apparatus, may be powerful enough to confine and control working-class institutions and behavior. It is certainly conceivable that a working class could be imbued with radical attitudes and values, yet play a dependent and insignificant role in politics and the economy owing to the state's successful employment of coercion and co-optation. One cannot understand the role of the proletariat outside the context of its interrelation with other social forces.

A brief discussion of working-class behavior as it is influenced by, and influences, consciousness and state regulation in such widely scattered countries as Zambia, Algeria, and Cuba should help to clarify some of these relationships. These three cases will provide some basis upon which to generalize about the key determinants of working-class consciousness and the likely significance of the proletariat in underdeveloped countries. Before dealing with the cases, however, one must delineate the range of consciousness and action found among working people.

I

The first possibility is that there is little or no class consciousness among workers. The assumption of an "individualist" orientation means that a worker, though he has his own goals and ambitions, does not identify these as the common aims of a class. He is thus likely to believe that his goals can best be achieved through individual rather than collective action. This individual action may take the form either of his working hard in order to impress the employer, or his seeking

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to attach himself to a prominent patron who can provide security, or his simply withdrawing from wage-employment in order to become independently established as a farmer or an urban petit bourgeois. Withdrawal is the normal reaction of the migrant "target worker," for instance, who makes a temporary sojourn into wage-employment in order to fulfill an immediate purpose. The "target" that such rural-oriented workers often seek is a sum large enough to purchase certain equipment for their small farms.[7] However, for reasons that are beyond the purview of this article, "target-working" is now declining in importance, except in poorly-paid plantation and mining employment. Today, an "individualist" orientation probably survives best in small enterprises, where the relationship between employer and employee (who may be members of the same family) is more in the nature of patron-client than an impersonal contract. Trade-union activity is very rare in such small-scale, indigenous enterprises.[8]

A second way in which working people may respond to their social and economic position is by creating (to use Lenin's term) a "trade-union" consciousness. This response emerges as workers realize that they share common economic aims that can be advanced through organization. In the first instance, the sense of solidarity may encompass only specific occupational categories (for example, coal miners, dockers, railway workers) rather than that far more amorphous category, the workers as a whole. In any event, this form of consciousness extends only to such collective aims as improvements in wages and working conditions, that is, to aims that are not irreconcilable with the status quo. Lenin was probably right when he complained that the "history of all countries shows that the working class, exclusively by its own efforts, is able to develop only trade-union consciousness, i.e., it may itself recognize the necessity for combining in unions, to fight against the employers and to strive to compel the government to pass necessary labor legislation, etc."[9]

As this quotation illustrates, Lenin understood that "economism," though limited to the extraction of short-range economic gains, does not restrict working-class action solely to the economic sphere. These limited aims, he knew, would often require trade unions to apply

[7] For an interesting analysis of the aims of "target workers" in one country, see Walter Elkan, *Migrants and Proletarians: Urban Labour in the Economic Development of Uganda* (London 1960), 131-32.

[8] Alaine Touraine and Daniel Pécaut, "Working-Class Consciousness and Economic Development in Latin America," *Studies in Comparative International Development*, III, No. 4 (1967–68), 82.

[9] V. I. Lenin, *What is to be Done?* (New York 1929), 33.

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political pressure in order to win concessions. In the Third World the pursuit of working-class economic interests frequently leads unions toward political action. This is due, in part, to the fact that the locus of decisions affecting the workers' economic status is often more in the political than in the economic sphere. In most parts of Africa and Latin America, the state determines the structure of the union movement and of collective bargaining; it plays a large part in regulating the terms and conditions of employment through participation in collective bargaining and legislation covering minimum wages, overtime pay, holidays and pension plans; and, finally, it determines major economic policies affecting inflation, taxes, and foreign exchange controls.[10] Furthermore, since the large, strategic industrial enterprises are often either wholly or partially publicly-owned or subject to state supervision in all their activities, trade unions clearly must direct their efforts toward the governmental machinery in order to obtain concessions. But the involvement of working-class institutions in political action does not necessarily mean that this class has abandoned economism.

The transition from trade-union to revolutionary consciousness occurs when the limited economic aims of working people are superseded by a recognition of the "irreconcilable antagonism of their interests to the whole of the modern political and social system."[11] Workers, in other words, perceive that they are exploited and will continue to be exploited as long as the capitalist system prevails. They therefore organize in order to destroy the established order and to construct something better in its place.

Having tried to clarify the forms of working-class consciousness and action, I wish now to apply these categories in the cases of Zambia, Algeria, and Cuba. My aim, to recapitulate, is to indicate how the role (or, to put it another way, the actions) of the working class is determined by the level of its consciousness and the reactions of other social forces.

II

Zambia is a mainly agrarian country in Central Africa whose economy is dominated by an immense copper industry. Zambia now ranks third, after the Soviet Union and the United States, in its production

[10] See Henry Landsberger, "The Labor Elite: Is it Revolutionary?" in Seymour M. Lipset and Aldo Solari, eds., *Elites in Latin America* (New York 1967), 290-91; and Richard Sandbrook, "The State and the Development of Trade Unionism," in Goran Hyden, Robert Jackson and John Okumu, eds., *Development Administration* (Nairobi 1970), 252-95.

[11] Lenin (fn. 9), 32.

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of copper. One of its government's principal goals is to harness this major industry in order to develop the rest of the country outside the copperbelt. As Robert Bates asserts in his excellent micro-study, *Unions, Parties, and Political Development: A Study of Mineworkers in Zambia*, the policy of the government toward mine labor is designed to fulfill this aim.

The African copper miners have evidently developed a hardy trade-union consciousness. Epstein, in his study of the copperbelt town of Luanshya, argues that an emerging consciousness of common interests had led these miners to challenge the existing tribal forms of labor relations as early as 1935.[12] The system of labor relations established by the mining companies had required each tribal group within their labor force to select its own elders. These elders were then charged with representing the interests of the workers before the companies. However, on two occasions before the second World War, the miners rejected this tribal form of organization. In 1940, for instance, striking miners chose leaders from amongst their ranks to express their grievances, repudiating the tribal elders as lackeys of the employers. After the war, the workers' sense of common interests gained organizational form in the African Mineworkers' Union, which was created with the assistance of a British trade-union advisor. The AMU became the official representative of the African workers in 1949, eclipsing the system of tribal representation and securing a large voluntary membership.

The term "militant economism" may best describe the role of the copper miners since independence in 1964. Much to the annoyance of Kenneth Kaunda's government, the well-remunerated miners have continually demanded higher wages under threat of strike action. This has resulted in increasing disparities in income among various segments of the Zambian population. By the end of 1968, the average annual income of the 50,000 mineworkers was 1,300 Kwacha, while that of the 270,000 wage earners outside the mines was 640 Kwacha, and that of the approximately 800,000 peasant families was only 145 Kwacha.[13]

This, then, is the context in which Bates analyzes the failure of the Zambian government's strategy, prior to 1969, to constrain the militant economism of the mineworkers. The prime feature of its "development labor policy" is the transformation of the Mineworkers' Union from

[12] A. L. Epstein, *Politics in an Urban African Community* (Manchester 1958), 28-31.
[13] International Labour Office, "Report to the Government of Zambia on Incomes, Wages, and Prices in Zambia: Policy and Machinery" (Lusaka 1969), 9. Note that 1 Kwacha = $1.40.

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an "input structure," specializing in the articulation of workers' demands, to an "output structure," devoted to regulating and controlling the behavior of its members. "Out of a regard for the national interest in rapid economic growth, the government asks the workers to restrain their wage demands, eschew strike action, work hard, and defer to the authority of their supervisors" (p. 1). In practice, however, the union (as of mid-1969) had "failed" to obtain the workers' support for the government's development labor policy. On the contrary, the government was confronted with "less willingness to work hard, greater insubordination, and increased propensities to strike" (p. 56). It reacted, as Bates indicates in his postcript, by imposing more direct public intervention in labor relations and trade-union affairs and by seeking to co-opt union officials into remunerative posts in parastatal bodies.

Although Bates disclaims any value commitment (p. 6), he clearly sympathizes with the Zambian government's aim to restrict the copper miners' bargaining power. His concern is purportedly not whether unions should protect the interests of workers or should collaborate with governmental aims; it is simply to study "the ability of governments to fulfill goals and to regulate the behavior of groups in order to realize objectives" (p. 6). But, disclaimers aside, Bates has clearly embraced a value commitment when, for instance, he expresses the "hope" that his interpretations and information will assist the governing party in "attaining their goals of development and justice" (p. x)—that is, by means of controlling the labor movement. Again, when Bates speaks of the union's "failure" to discipline and restrain its members, he must assume this is its proper role. From the point of view of the miners, their union has been a colossal success. Paradoxically, Bates' book is very interesting precisely because of his implicit commitment to government-controlled unionism in underdeveloped countries. By effectively presenting the rationale of and obstacles to such control, he advances the debate over the proper role of organized labor considerably.

Bates apparently selected his research problem on the basis of his assessment of the good intentions of the governing élite in Zambia. He classifies this élite, following Clark Kerr and his associates, as a "nationalist élite" dedicated to defend national sovereignty and attain rapid economic development through industrialization (p. 2). If the Zambian élite had been obviously corrupt and subservient to foreign interests, one doubts whether Bates would have chosen to study "the ability of governments . . . to regulate the behavior of groups in order to realize objectives" (p. 6). If the research site had been Batista's Cuba

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instead of Kaunda's Zambia, could Bates have justified putting his "interpretations and information" at the service of that oppressive regime's attempts to manipulate the working class? The study of labor's role in the economy and polity nearly always has value implications.

But is the struggle between the government and the unions in Zambia simply a struggle between the national interest and a selfish, sectional interest? On the one hand, the declining productivity of mineworkers and their increasing wages definitely threaten economic development and social justice. On the other hand, those who define the national interest—the political-bureaucratic élite—are unwilling to curb their own high consumption while condemning the copper miners' selfishness. The first few years of independence have seen the emergence of an indigenous and highly privileged "middle class," based mainly on the civil service, whose numbers and power have been augmented by the extension of public regulation and ownership of the economy. As one perspicacious observer of Zambian politics has put it, "Zambia is *par excellence* a case of René Dumont's 'bureaucratic bourgeoisie.' As such, the civil service cannot be a faithful executor of humanist values."[14] If the members of the "nationalist élite" do have feet of clay, as all indications suggest, this puts a different complexion on the struggle between government and labor. Can workers be expected to sacrifice for the national interest if the articulators of this interest are not?

III

The emergence and operation of a "bureaucratic bourgeoisie" is one of the main themes in Ian Clegg's *Workers' Self-Management in Algeria*. Clegg, unlike Bates, makes no pretense of neutrality. He is committed to the view that the only true socialist system is one that puts power directly in the hands of the workers and not under the control of a state bureaucracy. Workers' self-management, for Clegg, is not simply a topic to be analyzed but an ideal to be realized.

What light does Clegg's book shed on the existence and role of a working class in Algeria? He presents us with the paradoxical thesis that Algerian workers engaged in revolutionary action before they had achieved a revolutionary or indeed even a trade-union consciousness. Let us briefly discuss how Clegg develops and resolves this paradox.

[14] Robert Molteno, "Independent Zambia: Achievements and Prospects," in William Tordoff, ed., *Government and Politics in Zambia* (forthcoming).

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The author asserts that, though the violent attainment of Algerian independence in 1962 did not by itself constitute a revolution, the workers' seizure of privately owned means of production and their formation of management committees did. Since workers' self-management transformed the system of property relations and, potentially, of power relations as well, I believe Clegg is justified in referring to it as a revolutionary action.[15] The movement toward *autogestion* reached vast proportions. At its height (at the end of 1964), the self-managed sector included approximately 2,800 to 3,100 rural and urban units employing between 500,000 and 700,000 workers. This was in a total labor force of at least 2.6 million males, most of whom were peasants or unemployed.[16]

If we grant that the workers played a revolutionary role in 1962–63, how can we avoid the conclusion that they acted on the basis of a well-developed, revolutionary class consciousness? Clegg argues that their revolutionary role was more a spontaneous than a conscious class action. That is, industrial and agricultural workers seized and continued to run the means of production, not because they sought to transform the social and economic order, but because they wished to survive. The circumstances preceding the seizures included the abandonment, by fleeing *colons*, of over a million hectares of prime land and of many commercial and industrial establishments. Moreover, in mid-1962 no political authority existed that was capable of dealing with the immediate economic problems. The workers thus reacted to the exigencies of making a livelihood by seizing and running the enterprises in which they were employed.

Clegg cites evidence, from a study carried out in 1960 by Pierre Bourdieu and associates, to support his contention that most Algerian workers lacked class consciousness.[17] These researchers concluded, on the basis of an attitudinal survey, that only a minority of workers felt they could bring about changes in the economic system through or-

[15] Antonio Gramsci, the prominent Italian Marxist, maintained, for instance, that the factory council was "the model of the proletarian state," since this institution allowed the proletariat "to educate itself, gather experience and acquire a responsible awareness of the duties incumbent upon classes that hold power of state." Quoted in John Merrington, "Theory and Practice in Gramsci's Marxism," *The Socialist Register, 1968* (London 1968), 158-59.

[16] These estimates are based on David Porter's careful sifting of the available statistics. See "Workers' Self-Management: Algeria's Experiment in Radical Democracy," paper presented to the Annual Meeting of the African Studies Association, Los Angeles, October 16-19, 1968, p. 1.

[17] Pierre Bourdieu, A. Darbel, and others, *Travail et travailleurs en Algérie* (Paris 1963).

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ganization. An individualist rather than a revolutionary or even a trade-union consciousness predominated.

Clegg further maintains that, owing to this lack of working-class consciousness, the workers' revolutionary gains were soon subverted by an emergent social force. I will call this new social force, which is similar to Milovan Djilas' "new class," the "state-class." It comprises the top bureaucrats of the burgeoning state apparatus and the sole legal party, the *Front de Libération Nationale*. Most of these bureaucrats, according to Clegg, are either former lower-grade members of the colonial administration or opportunists placed in their posts for patronage reasons. Because of their background and present highly privileged position, they have no ideological commitment to socialism. However, a centralized state socialism does appeal to them because it situates political and economic power in their hands. The main threat to the growing hegemony of this class is workers' self-management, which Ben Bella had accepted as the mainstay of Algerian socialism in 1963–64. There was thus, after 1963, a conflict between the state-class and the incipient working class over control of the means of production. This was an uneven struggle in which the bureaucracy, justifying its actions by blaming *autogestion* for the continued economic malaise, managed to subordinate, control, or eliminate the workers' management committees.[18] Hence, "the eclipse and defeat of *autogestion* can only be understood if the simple conflict between two forms of socialism is amplified by the objective definition of a class struggle between two emerging classes: the working class and the middle class centered around the bureaucracy" (p. 115).

Clegg's argument is stimulating and imaginative, though based overly much on impressionistic evidence. (Of course, a definitive assessment of Algeria's experiment in workers' self-management is hardly possible while it remains a contentious political issue.) Particularly interesting in Clegg's study is the typification of the top ranks of the bureaucracy as a privileged and cohesive hegemonic class. One suspects that this characterization is at least as accurate as that implicit in the phrase "development administration." In any event, the Algerian bureaucracy had, in the name of Algerian socialism and economic development, reduced its incipient working class to a dependent and insignificant role by 1967.

[18] Neither Clegg, pp. 85-93, nor Porter (fn. 16), 19-21, accept the argument that self-management was responsible for Algeria's economic woes. Both writers agree that the economic failures of the self-managed sector were as much a result of bureaucratic inefficiency and sabotage as of anything else.

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IV

Maurice Zeitlin, in his *Revolutionary Politics and the Cuban Working Class*, investigates mainly the consciousness of a working class rather than its interaction with other social forces. His is an exceptional book in that it is the first study utilizing contemporary sociological methods and theory to ascertain the major determinants of radical working-class attitudes shortly after a successful revolution. Zeitlin displays ample imagination in manipulating his data—and imagination is certainly required, given the smallness of his sample (202 industrial workers employed in 21 plants), his inability, in selecting his sample, to control for any variable other than size of enterprise, and his failure to question respondents on their political and trade-union involvement before the revolution.

The Cuban revolution, according to Zeitlin, is a working-class revolution. But it is not a workers' revolution in the classic Marxian sense, since the proletariat did not participate in the violent struggle to overthrow Fulgencio Batista. True, workers did play some part, especially in Santiago, Cuba's second-largest city, where paralyzing political strikes occurred twice in the last two years of Batista's rule. Elsewhere, however, the workers remained more or less passive in the conflict between the forces of Batista and Castro.[19] In Zeitlin's view, the revolution is a workers' revolution in the sense of the radical consciousness that Castro was able to tap once he had assumed power in January of 1959. In fact, he argues that the revolutionary government's working-class base was probably "beyond its leaders in its vision of the society to be created by the revolution. This is in striking contrast to the situation in other countries in which the revolutionary leaders were far beyond their own mass base. The fact of a socialist political culture in the working class—a nationally-based, cohesive working class—combined with the force of nationalism and anti-imperialism, created a potent revolutionary force. . . ."[20] Moreover, this working-class base was crucial, because Cuba, unlike Zambia and Algeria, was a highly urbanized and proletarianized society in which the peasantry was a fairly marginal social force.

But how does Zeitlin know that the Cuban proletariat had attained a revolutionary consciousness? His index of a radical orientation before Castro's accession to power consists of expressions of retrospective sup-

[19] Zeitlin acknowledges this as being the case, as do other writers. See, for example, Ramon Eduardo Ruiz, *Cuba: The Making of a Revolution* (New York 1968), 14.

[20] Zeitlin, "Cuba—Revolution Without a Blueprint," *Trans-Action*, VI (April 1969), 41.

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port for the Communists during prerevolutionary times. The validity of this index is, however, open to some doubt. In the first place, a pro-Communist attitude does not necessarily mean that a respondent desires a transformation of the established order. As Zeitlin himself observes, the Communists gained support among the workers "not merely as revolutionaries but as good unionists" who pressed forcefully for improved wages and working conditions (p. 7). But he still contends that "such straight union appeals as the Communists undoubtedly had were complemented by the general Communist image as a revolutionary alternative to Cuban capitalism" (p. 8). To support his position, he proceeds to recount the role of the workers in the 1933 revolt and to recall that the context of Communist agitation was anti-imperialist and revolutionary socialist. Still, one has to point out—raising again the problems of inferring a radical orientation—that, in the absence of information about the respondents' patterns of prerevolutionary political participation, one cannot know whether pro-communism indicates merely a satisfaction with the Communists' economically oriented actions or a more basic commitment to revolutionary change.[21] If one then cites the workers' active support for Castro after 1959 as evidence of their revolutionary consciousness, one destroys the explanatory utility of class consciousness by defining it in terms of precisely those behavioral effects one set out to account for.

Moreover, one must mention that the *absence* of a pro-Communist attitude does not imply the lack of a revolutionary orientation. Fidel Castro, for instance, was not pro-Communist before 1960, yet he was certainly radical![22]

What has been the role of the working class in revolutionary Cuba? That the bulk of agricultural and urban workers have benefitted from the revolution is incontrovertible. Their main demands—for more employment, schools, hospitals, recreational facilities, and so on—have been granted. But the goals of creating a socialist society and the "new socialist man" have required the employment of coercion even against the workers. In the first two years of the revolution, Castro's government sought control of trade unions by means of purging them of all "anti-Communist" and "counter-revolutionary" leaders. Next, the government transformed the functions of the union movement. A law passed in August 1961 required the unions "to assist in the fulfilment

[21] Many writers have denied that the Communists represented a radical force during the Batista era. See, for example, Robin Blackburn's excellent "Prologue to the Cuban Revolution," *New Left Review*, No. 21 (October 1963), 87.

[22] This is a point made by José Nun in "Cuban Workers and the Revolution," *Trans-Action*, VI (November 1968), 57.

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of the production and development plans of the nation, to promote efficiency, expansion, and utility in social and public services."[23] The only independent role of the unions was to protect workers from administrative abuses and to undertake certain social welfare functions. According to one writer, the consequence of eliminating all autonomous working-class institutions is that the worker is "not consulted on planning, output standards, wage scales, emulation, and labor discipline. Rather, the whole system is imposed upon him by a superior decision."[24] Workers have reacted to this situation with apathy and indifference toward union activities and, reportedly, with increasing absenteeism and lowering of productivity.

Castro, in a speech of self-criticism in 1970, mentioned the bureaucratization of decision-making as one of the mistakes to be rectified. Whether the recent flurry of efforts to involve employees in decision-making will succeed remains to be seen. But, according to some sympathetic observers, the danger signs of the crystallization of a state-class, based on the state bureaucracy, have already appeared.[25] If this is the trend, the absence of any independent working-class organizations outside of the party and state bureaucracies will permit the new class to deflect unopposed the revolutionary thrust toward social equality.

V

These brief references to recent studies have demonstrated the varied ways in which working-class activity is molded by the existence and type of class consciousness and the opposition of other social forces and institutions. In Zambia, the Mineworkers' Union struggles with the state to retain enough autonomy to pursue its economic aims. Although the copper miners have manifestly attained a hardy trade-union consciousness, they are a relatively small group without significant allies. Increasing state control of labor relations and union affairs will probably lead to diminishing labor productivity and periodic wild-cat strikes. In Algeria, the Moslem workers, owing to an accident of history, engaged in revolutionary but mainly spontaneous action in 1962–63 before they had a well-developed class consciousness. Their weakness in numbers and consciousness permitted an emergent bureaucratic class

[23] Quoted in James O'Connor, *The Origins of Socialism in Cuba* (Stanford 1970), 195.

[24] Carmelo Mesa-Lago, *The Labor Sector and Socialist Distribution in Cuba* (New York 1968), 182.

[25] See, for example, René Dumont, *Cuba: est-il socialiste?* (Paris 1970). The term state-class is not used by Dumont.

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to subvert their achievement of workers' self-management. Finally, in Cuba there obtained a situation that was the opposite of that in Algeria: a working class with an apparently radical orientation which nevertheless did not undertake any revolutionary action during the Batista era. Since the revolution it has come increasingly under bureaucratic control. On the basis of these cases, I now wish to suggest briefly the main determinants of working-class consciousness and to generalize about the roles the working class is likely to assume in the future.

If we accept Lenin's observation that trade-union consciousness is the normal orientation of workers ("left to themselves"), we must explain deviation from this norm in the form of revolutionary consciousness. Five variables appear crucial in any such explanation.

1. *Economic deprivation.* Deprivation in itself, as so many writers have noted, explains very little.[26] Feelings of deprivation are compatible with the adoption of an individualist orientation by the workers (as in Algeria in 1960), or a trade-union consciousness (as in Zambia before the war), or a revolutionary consciousness (as in Cuba since the 1930's). Moreover, the most deprived workers are not necessarily the most radical. For example, Zeitlin, in his study of Cuban workers, finds that, as one would expect, the prerevolutionary unemployed were more likely to evince radical attitudes than those who had obtained steady employment. But he also discovers that, contrary to the conventional view that the low-income workers are the most radical, the workers in the *higher* income brackets were the most radical among those who had often been unemployed (pp. 64-65). Again, Zeitlin ascertains that skilled workers, though they received higher wages and had more schooling, greater job satisfaction, and more economic security than unskilled workers, were more likely to be pro-Communist than the less skilled. This finding contradicts the conventional wisdom that the "labor aristocracy" (which Lenin inveighed against) is composed of natural conservatives, since the skilled are so much better off than the unskilled.

We thus arrive at the commonplace that what matters in understanding radicalism is not the objective situation but the way it is perceived. Social scientists have often made use of this proposition to explain why an improvement in the situation of deprived groups is sometimes associated with their attacking the established order. Therefore, what we need to discern are the generic conditions which, in in-

[26] See H. Wolpe, "Some Problems Concerning Revolutionary Consciousness," *The Socialist Register, 1970* (London 1970), 254-55.

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fluencing the workers' perception of social reality, give rise to a revolutionary consciousness.

2. *Common experiences.* One such factor is a lengthy period during which workers undergo common experiences, especially struggles with a common opponent. In the words of one writer: "Men work together, share common experiences, and realize that they have common interests. By acting together to advance those interests, they learn their need for unity. This growing consciousness enables them to act more effectively, and shared experience of successful action in turn intensifies group consciousness."[27] The point, in brief, is that, as consciousness influences action, so do common actions affect the development of class consciousness. In Algeria, workers had little opportunity to create even a trade-union consciousness, since few had a long-term urban commitment and, in any event, no independent trade-union for Moslems emerged until 1956. Since the Europeans had a near-monopoly of skilled jobs until 1962, Moslems only had access to unskilled, insecure employment. Many Moslems had a recent rural background, segregated themselves in urban areas according to their region of origin, and preserved close contacts with their rural birthplaces.[28] Many of the same conditions obtained in Northern Rhodesia (Zambia) before independence. However, the formation of trade-union consciousness among the mineworkers was fostered by the cohesion engendered by employment and residence in the occupationally homogeneous mine sites and by the willingness of the colonial authorities to encourage nascent trade unionism.

Zeitlin's study of the Cuban working class underscores the importance of common experiences in creating a radical consciousness. In his words, the "historical period (and/or phase of development of the economic and political organization of the working class) during which succeeding generations of workers first became involved in the labor movement had significant consequences for the formation of their political outlook" (p. 218). Certainly, the Cuban labor movement has a long history, extending back to the establishment of unions for tobacco workers before the turn of the century. Moreover, the working class was exposed to an independent radical ideology—anarchosyndicalism—before the first World War, when a wave of Spanish immigrants introduced this doctrine into Cuba. The Communists began

[27] John Iliffe, "A History of the Dockworkers of Dar es Salaam," *Tanzania Notes and Records*, No. 71 (1970), 120. See also E. D. Thompson, *The Making of the English Working Class* (London 1964), 194.

[28] Pierre Bourdieu, *The Algerians*, trans. by Alan C. M. Ross (Boston 1962), 64.

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their organizational activities among the workers at the outset of the Great Depression, gaining widespread support during the revolutionary upheavals of the 1930's. This is the context in which Zeitlin discovered that workers belonging to the generation that entered employment during the Batista struggle were more likely to evince radical attitudes than members of other generations. The two other generations, in Zeitlin's view, that stand out in support of the revolution of 1959–60 are those whose members experienced the revolutionary conflicts of the 1930's as young men. Zeitlin's conclusion is that the impact of youthful experiences proved most important in the ideological development of precisely those who had the least objective economic reason for radical attitudes (e.g., the skilled workers).

3. *Means of communication.* Another condition influencing consciousness—referred to by Marx and Engels in *The Communist Manifesto*—is improved communication among workers, brought about by their concentration in large-scale industry. Since the industrial sector in most third-world countries is small, these countries generally lack the mass basis for a strong labor movement. However, individual undertakings—such as copper mining in Zambia—do provide the scale and ease of communications on which to build a cohesive and powerful union. In Cuba, the domination of the economy by large-scale sugar plantations and mills has meant that the working class has long been a potentially potent social force. Zeitlin's study is apropos here. He finds that, while the Cuban revolution received nearly equal support among workers in industrial plants of all sizes, those in the larger (though not the largest) plants were more likely to declare retrospective support for the Communists than those in the smaller ones. The author explains this differential incidence of pro-Communist attitudes by suggesting that Communist organizers were likely to focus their attention on larger plants; that larger plants tended to foster more impersonal work relationships; and that, in larger plants, intra-class communication is high, but contacts between workers and non-manual personnel are infrequent. In these ways, working-class definitions of the situation were reinforced (p. 178).

4. *Nationalism.* Anti-imperialism is also a factor which, under certain conditions, may promote a radical orientation on the part of workers. One of the erroneous assumptions on which Clark Kerr and his associates based their prediction of a decline in worker protest was that the transfer of power by colonial regimes signified the end of external domination, and hence, the end of an issue which could

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mobilize the workers as nationalists. To the extent that some underdeveloped countries continue to exist as semi-colonies in which dependent "nationalist elites" (Kerr's term) show scant commitment to economic development and social justice, the stage is set for the radicalization of the workers. The persistence of economic stagnation and semi-industrialism under foreign auspices ensures that nationalism will remain a potent force. For example, Zeitlin believes that in Cuba nationalism constituted a "fundamental source of the workers' revolutionary political attitudes" (p. 287). Since the United States Government supported corrupt and oppressive Cuban regimes, and since U.S. economic interests controlled many of the largest Cuban enterprises, the working-class struggle for better working conditions and political rights was directed against foreigners and their local agents. Hence, nationalism permeated and heightened the basic class conflict. By contrast, the evidence tends to suggest that in Algeria and Zambia nationalism tended to blur rather than to crystallize class identity during the struggle for independence. This struggle was presumably perceived in both countries as a color conflict, not a class conflict; it probably reinforced the Algerian worker's identity as a *Moslem* and the Zambian worker's identity as an *African*—but not, in either case, as a worker.

5. *Agitation.* A final condition associated with radical working-class consciousness is the existence of an élitist political organization dedicated to the political education of workers. Revolutionary consciousness, according to Lenin, could only be brought to the workers from without, by devoted professional revolutionaries. Their task in agitating among the workers was to place every manifestation of tyranny and oppression within a broad framework of capitalist exploitation.[29] In Cuba, as I have already mentioned, Communist organizational and educational activities among the workers stretched back over several decades prior to the revolution of 1959–60. Zeitlin believes that this prerevolutionary socialization of the workers is definitely important in explaining the wide support for the revolution (p. 283), especially among employees who, being relatively better off than others, had less objective reason for such support. In Algeria the Communist Party (PCA), though formed in 1936, made little headway because of its predominantly European leadership and its opposition to Algerian nationalism prior to 1956. Until the formation of the *Union Général des Travailleurs Algériens* in 1956, the Moslem workers did not even possess an independent union organization. And this body had almost

[29] Lenin (fn. 9), 32-33, 77-78.

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collapsed by 1958, with most of its leaders either in prison or in exile in Tunisia. Furthermore, the *Front de Libération Nationale*, formed in 1954, did not engage in socialist educational work for the simple reason that it was not a socialist party but a nationalist movement until 1962. In Zambia, no Communist party has ever existed. The leaders of the existing political parties—both the governmental and the opposition ones—have tended to play down or deny class conflict. The reason for this strategy is simple: the present politicians, in order to mobilize peasant and worker support on the basis of a class appeal, would have to channel the grievances of the masses against the new African élite, to which the politicians themselves belong. "A class appeal would have to attack not just foreign capitalists, but the present Zambian élite too—its high income and propensity to consume, its increasing integration into the private sector, its failure to direct government investment into productive facilities."[30] Without radical leadership, the well-remunerated copper miners have understandably pursued only short-term economic aims.

VI

Given the diversity of conditions present in the Third World, one cannot conclude with any firm prognostication of the historical role of the working class. One can point out that, since all underdeveloped countries are rapidly becoming more urban while some (especially in Latin America) are already mostly urban, the peasantry in many cases no longer represents the major social force. Revolutions, to succeed, will increasingly require the active intervention of urban elements, including the working class.[31] Is such intervention by the proletariat likely to be forthcoming? Although this question is impossible to answer in general terms, one can refute the contention of Fanon and others that the relatively privileged status of urban workers necessarily negates their revolutionary potential. While the employed may be well-off in comparison to the mass of the population, they may feel deprived relative to another group—perhaps an alien minority or the ruling élite. Again, what matters is not the objective situation but the way the workers perceive it. It is far from inconceivable that a confluence

[30] Robert Molteno, "Cleavage and Conflict in Zambian Politics: A Study in Sectionalism," in Tordoff (fn. 14).

[31] For an excellent comparative analysis of the likelihood that the marginal unemployed or underemployed sub-proletariat will participate in political violence, see Joan M. Nelson, *Migrants, Urban Poverty and Instability in Developing Nations*, Harvard University, Center for International Affairs, Occasional Paper No. 22 (September 1969).

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of certain factors—the workers' common experience of bureaucratic repression and self-enrichment by the élite, along with their concentration in large enterprises, the force of anti-imperialism in a situation of neocolonialism, and the operation (possibly clandestine) of vanguardist groups—will radicalize certain labor movements.

Of course, the emergence of a revolutionary working-class consciousness does not guarantee revolutionary action by workers. Governments in both Latin America and Africa have proved themselves adept at controlling the actions of organized labor through a combination of repression, propaganda, and rewards (especially for union "bosses"). Such control is usually justified in terms of the "national interest" in political stability, economic development, and a more equitable sharing of wealth between the urban and rural areas. Yet it is clear that, contrary to the views of Kerr, Dunlop, Harbison, and Myers, the "nationalist elite," not the workers, often poses the greatest threat to these desirable goals. The venality, affluence, and factiousness of many élites are not traits that can be expected to reduce worker protest in the underdeveloped countries.

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